



**Farm Credit Administration
Fiscal Year 2009 Budget (Proposed)
and Performance Budget**

TABLE OF CONTENTS

INTRODUCTION	VIII
PART I: FISCAL YEAR 2009 BUDGET (PROPOSED)	1
FISCAL YEAR 2009 BUDGET OVERVIEW	2
Background	2
FCA Program Areas	3
The Policy and Regulation Program	3
The Safety and Soundness Program	3
Sources of FCA Revenue and Funding, FYs 2005–2009	3
BUDGET TRENDS	6
BUDGET AND ASSESSMENT ISSUES	8
Farm Credit System	8
Federal Agricultural Mortgage Corporation (Farmer Mac)	8
Farm Credit Administration	9
FCS Borrower Costs	9
FCA Budget Carryover	10
Staffing	11
PART II: FARM CREDIT ADMINISTRATION	14
PROFILE OF THE FARM CREDIT ADMINISTRATION	15
Mission Statement	16
FCA Board and Governing Philosophy	16
FCA Organizational Structure	17
FCA INTERNAL OPERATIONS	19
Human Capital Management	19
Implementing the Human Capital Plan	21
FCA Compensation Program	22
Locality pay differential	22
Salary adjustments	23
Salary ranges for FCA employees	24
External Contracting and Shared Services	25
Outsourcing	25
Sole Source and Competitive Consulting Service Contracts	25
Other Functions and Activities	28
Reception and Representation Expenditures	28
Foreign Travel Expenditures	28
Reimbursements	28
Leveraging FCA Technology	28
Strategic Plan, FYs 2004–2009	29
Independent Auditing and Accountability	30

ENSURING THE SAFETY AND SOUNDNESS OF THE FCS	31
The Farm Credit System	31
Statutory Requirements	31
Risk-Based Examination and Supervision	31
Identifying and Responding to Potential Threats to Safety and Soundness	32
Measuring the Safety and Soundness of the System	33
Summary of FCS Examinations	34
Federal Agricultural Mortgage Corporation	35
Assessment of Statutory Authorities and Regulations	35
Data Reporting Requirements	35
Summary of Examination	35
RBC Model	36
DEVELOPING REGULATIONS AND POLICIES	37
Regulatory and Policy Projects Active at Year-End FY 2007	37
Regulatory and Policy Projects Completed During FY 2007	38
FCS Corporate Activity and Other Prior Approvals	40
Corporate Activities in FY 2007 and Early FY 2008	40
Projected Mergers and FCS Institution Size	41
Security Issuances During FY 2007	41
Funding Activity	41
Investments in Rural America	42
PART III: FARM CREDIT SYSTEM	43
PROFILE OF THE FARM CREDIT SYSTEM	44
Additional System Entities and Service Corporations	46
FCS Mission Fulfillment	47
Financial Condition and Performance	47
Earnings	48
Asset Growth	49
Assets—Investments	51
Asset Quality	53
Liabilities, Funding, and Liquidity	53
Capital	55
Young, Beginning, and Small Farmers and Ranchers	56
Market Share of Farm Debt	58
PART IV: PERFORMANCE BUDGET, FY 2009	60
PERFORMANCE BUDGET OVERVIEW	61
Policy and Regulation	61
Safety and Soundness	61
Reimbursable Activities	62

DESIRED OUTCOMES FOR STRATEGIC GOALS	63
Flexible Regulatory Environment	63
Means and Strategies.....	63
Measuring the Achievements	64
Costs.....	66
Effective Risk Identification and Timely Corrective Action	66
Means and Strategies.....	66
Measuring the Achievements	67
Costs.....	68
Effective and Efficient Management of Resources.....	68
Means and Strategies.....	68
Measuring the Achievements	68
PERFORMANCE MEASUREMENT AND REPORTING.....	70

LIST OF TABLES

1. Farm Credit Administration FY 2009 Budget (Proposed).....	2
2. Sources of FCA Revenue and Funding, FYs 2005–2009.....	5
3. FY 2009 Budget (Proposed) Compared with the FY 2008 Budget (Revised).....	6
4. FCA Obligations, FYs 2005–2009.....	7
5. FCS Assessments and Refunds, FYs 2000–2009.....	8
6. Farmer Mac Assessments, FYs 2000–2009.....	9
7. FCA’s Net Cost to System Borrowers, FYs 1998–2007.....	10
8. FCA’s Budget Carryover, FYs 1998–2007.....	10
9. Total Full-Time-Equivalent (FTE) Levels by Office, FYs 2005–2009.....	12
10. FCA Obligations by Office, FYs 2005–2009.....	13
11. Full-Time-Equivalent (FTE) Staffing Levels, FYs 2000–2009.....	19
12. Ratio of Managers and Supervisors to Other Personnel, FYs 2000–2009.....	20
13. FCA Retirement Eligibility, FYs 2008–2012.....	21
14. FCA Locality Pay Rate, FY 2008.....	23
15. FCA 2008 Percent Increases in Pay by Performance Ratings and Salary Range Quintiles.....	23
16. FCA Salary Ranges for Calendar Year 2008.....	24
17. Outsourcing, FY 2007.....	25
18. Single Source (SS) and Competitive Consulting Service (CCS) Contracts, FY 2006.....	26
19. Single Source (SS) and Competitive Consulting Service (CCS) Contracts of More Than \$25,000, FY 2007.....	27
20. Net Income.....	48
21. Interest Margin Compression.....	49
22. Profitability Across System Districts.....	49
23. Gross Loan Volume Growth by District and Systemwide.....	50
24. FCS Investments.....	52
25. FCS Asset Quality.....	53
26. Systemwide Debt.....	54
27. FCS Capital Composition.....	55
28. Regulatory Capital and Ratios of FCS Banks.....	56
29. YBS loans Outstanding as of End of Calendar Year 2006.....	57
30. YBS New Loans in 2006.....	58
31. FCA Performance Budget, FYs 2007–2009.....	61
32. FY 2009 Budget (Proposed) and Full-Time Equivalents (FTEs) for Program Activities..	62
33. Desired Outcomes for Strategic Goals.....	63
34. Flexible Regulatory Environment Performance Measures and Achievements.....	65
35. Costs to Achieve a Flexible Regulatory Environment.....	66
36. Effective Risk Identification and Timely Corrective Action.....	67
37. Costs to Identify Risk and Take Timely Corrective Action.....	68
38. Effective and Efficient Management of Resources.....	69

LIST OF FIGURES

1. FCA Organizational Structure	18
2. Farm Credit System Financial Institution Rating System (FIRS) Composite Ratings	34
3. Map Showing Chartered Territory of Each FCS Bank and the Locations of FCA Field Offices.....	45
4. Percent Change in System Assets, September 2003 to September 2007	51

LIST OF ACRONYMS AND ABBREVIATIONS

ACA	Agricultural Credit Association
B&I	Business & Industry
CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
Farm Credit Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FBRA	Federal Bank Regulatory Agency
FCA	Farm Credit Administration
Leasing Corporation	Farm Credit Leasing Services Corporation
FCS	Farm Credit System
FCSBA	Farm Credit System Building Association
FCSIC	Farm Credit System Insurance Corporation
FIRS	Financial Institution Rating System
FLCA	Federal Land Credit Association
FTE	full-time equivalent
FTP	full-time permanent
FY	fiscal year
Funding Corporation	Federal Farm Credit Banks Funding Corporation
GSE	Government-sponsored enterprise
HCP	Human Capital Plan
IDPs	individual development plans
IT	information technology
NBC	National Business Center
NCB	National Consumer Cooperative Bank
OPM	Office of Personnel Management
OSMO	Office of Secondary Market Oversight
PCA	Production Credit Association
RBC	risk-based capital
SBA	Small Business Administration
USDA	U.S. Department of Agriculture
USDA/FAS	U.S. Department of Agriculture/Foreign Agricultural Service
YBS	young, beginning, and small (farmers and ranchers)

INTRODUCTION

The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related entities that collectively constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation¹ (Farmer Mac).

Initially created by an Executive order of the President in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act). FCA promulgates regulations to implement the Act and examines System institutions for compliance with the Act, regulations, and safe and sound banking practices. FCA's mission is to promote a safe, sound, and dependable source of credit and related services for agriculture and rural America.

This document (Budget Request, Proposed Budget) presents and justifies FCA's proposed budget for fiscal year 2009. It contains important information about FCA's various functions and program activities, along with an overview of the financial condition of the FCS and Farmer Mac, the entities regulated by the Agency. Also included is the fiscal year 2009 performance budget, which ties proposed expenditures to the goals and objectives in FCA's strategic plan.

The Budget Request is organized into four sections as follows:

1. Part I contains FCA's budget request. This section presents budget trends that are monitored annually by the Agency.
2. Part II covers the functions, programs, and services undertaken by FCA to fulfill its public mission. It also provides information on actions the Agency has taken to improve internal operations.
3. Part III discusses the System's financial condition and performance.
4. Part IV contains FCA's FY 2009 performance budget, which serves as a basis for measuring the Agency's overall effectiveness.

¹ Although Farmer Mac is chartered as an FCS institution, it is treated separately from the FCS in this document because of its unique mission. Farmer Mac is viewed as a separate Government-sponsored enterprise and is not jointly and severally liable on debt issuances with other parts of the FCS.



PART I

Fiscal Year 2009 Budget (Proposed)

FISCAL YEAR 2009 BUDGET OVERVIEW

The budget request, as represented in table 1, includes \$49,000,000 in assessments collected (in current and prior years) from Farm Credit System (FCS or System) institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac). Additional sources of funding bring the total proposed Farm Credit Administration (FCA) budget request to \$49,640,147. The budget request reflects a 4.98 percent increase from the previous year's revised budget.

TABLE 1. Farm Credit Administration FY 2009 Budget (Proposed)

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	\$29,965,007	60.4
Other than FTP	601,459	1.2
Other personnel compensation	236,027	0.5
Total personnel compensation	\$30,802,493	62.1
Personnel benefits	9,723,764	19.6
Benefits for former personnel	18,000	0.0
Total compensation and benefits	\$40,544,257	81.7
Travel and transportation of persons	3,094,282	6.2
Transportation of things	102,900	0.2
Rent, communications, and utilities	579,065	1.2
Printing and reproduction	175,550	0.3
Consulting and other services	3,774,877	7.6
Supplies and materials	532,859	1.1
Equipment	836,357	1.7
Total budget	\$49,640,147	100.0
Current-year assessment	\$45,100,000	---
Carryover funds	3,900,000	---
Assessments collected from the FCS and Farmer Mac	\$49,000,000	---
Other sources of funding	640,147	---
Note: The \$49,640,147 budget request includes \$40,544,257, or 81.7 percent, for total compensation and benefits. Obligations for administrative expenses in FY 2009 are not to exceed the amount to be collected in assessments from the FCS and Farmer Mac (\$49,000,000). Other sources of funding, such as reimbursements and interest income, do not affect this limitation. The FY 2009 proposed budget reflects a 4.98 percent increase from the previous fiscal year's revised budget.		

Background

Research on the FCS consistently suggests that its institutions will continue to evolve in the coming years to meet the demands of a progressively multifaceted and complex marketplace for agriculture and rural America. As FCS institutions grow and evolve to meet changing demands, their operations are becoming increasingly complex. While mergers and consolidations of institutions are expected to continue, they have moderated in recent years.

The Agency expects the System's asset base to continue to grow at a relatively strong rate. This will increase the average institution's asset base, which currently exceeds \$1 billion.

The budget request reflects anticipated changes in the System and financial markets that will require increased resources to ensure the safety and soundness of the FCS. The budget strategy will enable FCA to more effectively leverage and build on its most valuable investment—its people. The budget request assumes the Agency will continue to implement initiatives designed to streamline and improve operations and to develop and enhance staff expertise to meet any challenges and opportunities that arise. The budget request supports the Agency's Human Capital Plan by providing for an increase in the number of Office of Examination staff and by providing for the implementation of the Information Resources Management Plan.

FCA Program Areas

The Agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

The Policy and Regulation Program

The budget provides resources for developing regulatory and policy solutions for issues facing the System that relate to its mission and to safety and soundness. This includes developing regulations and policies that implement applicable statutes, promote the safety and soundness of the FCS, and support the System's mission as a dependable source of credit and related services for agriculture and rural America. In addition, the budget provides for ongoing activities such as evaluating and recommending regulatory and funding approvals, managing merger and chartering activities, and providing policy research and analyses of risks and other issues impacting the System. The budget also provides for support activities such as processing information, communicating Agency positions, and administering program activities. In total, policy and regulation activities account for \$14.4 million in the proposed FY 2009 budget.

The Safety and Soundness Program

More resources are provided in the budget to enable FCA to ensure that each FCS institution operates safely and soundly in a growth-oriented environment, complies with applicable laws and regulations, and is financially positioned to meet the needs of agriculture and rural America. The budget also allows the Agency to implement examination policy and national examination initiatives. These initiatives, along with the structural realignment of offices, are based on input from Agency staff and data derived from studies conducted by FCA. Beyond the initiatives and realignments, the Budget includes an array of resources to enable the Agency to fulfill its responsibilities in this program area. In total, safety and soundness activities account for \$32.8 million in the proposed FY 2009 budget.

Sources of FCA Revenue and Funding, FYs 2005–2009

FCA maintains a revolving fund that is primarily capitalized through assessments on System institutions, including Farmer Mac and FCS service corporations. In addition, FCA provides reimbursable services to other Federal agencies and earns interest from investments with the U.S. Department of the Treasury. Most of the Agency's reimbursable work is performed for the Farm Credit System Insurance Corporation, the U.S. Department of Agriculture

(USDA), the Small Business Administration (SBA), and the National Consumer Cooperative Bank (NCB). The Agency does not expect to have any activity with either the SBA or with the USDA's program in Armenia in FY 2009. Reimbursable work will continue with USDA's Rural Business Cooperative Services, with FCA examiners providing assistance in reviewing certain Business and Industry guaranteed loan programs. Table 2 shows actual and projected sources of revenue and funding for FYs 2005–2009.

TABLE 2. Sources of FCA Revenue and Funding, FYs 2005–2009

Source	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Revised Budget	FY 2009 Proposed Budget
ASSESSMENTS					
Banks, associations, and related entities	\$37,096,000	\$38,264,599	\$39,306,736	\$40,500,000	\$43,050,000
Federal Agricultural Mortgage Corporation	2,304,000	2,350,422	2,200,000	2,050,000	2,050,000
Carryover funds ^a	2,937,000	3,750,000	2,750,000	3,450,000	3,900,000
Assessments available for obligation	\$42,337,000	\$44,365,021	\$44,256,736	\$46,000,000^b	\$49,000,000^c
REIMBURSEMENTS^d					
National Consumer Cooperative Bank	169,000	111,262	192,420	117,142	117,686
Small Business Administration	746,000	713,593	980,314	565,169	0
Farm Credit System Insurance Corporation	112,000	127,574	251,516	55,227	55,515
U.S. Department of Agriculture	515,000	295,067	778,341	468,074	466,946
U.S. Department of Agriculture (Armenia)	62,000	205,103	430,143	78,792	0
Other miscellaneous income	25,000	17,750	8,788	0	0
OTHER					
Interest income	660,000	1,016,224	1,515,213	— ^e	— ^e
Total	\$44,626,000	\$46,851,594	\$48,413,471	\$47,284,404	\$49,640,147
^a Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. ^b FCA's obligation limit for FY 2008 is \$46,000,000. The obligation limit is equal to the portion of FCA's budget that is derived from assessments (current and prior years). Other sources of income do not affect the limit. ^c FCA's proposed obligation limit for FY 2009 is \$49,000,000. ^d From a budget standpoint, reimbursements do not include indirect costs. ^e In conjunction with FCA's interest reserve strategy, no funds are budgeted from interest earned for FYs 2008 and 2009. Note: The revolving fund is financed primarily through assessments on System institutions, including Farmer Mac and FCS service corporations, along with money received for reimbursable services that FCA provides to other Federal agencies and the interest earned from investments with the U.S. Treasury.					

BUDGET TRENDS

Tables 3 and 4 provide information on FCA's budget trends. Spending levels have remained relatively flat over the last three years: growth in the Agency's overall annual budget for FY 2009 of 4.98 percent is the result of increases in examination staff, employee salaries and benefits, and technology costs—all of which represent approximately 85.0 percent of FCA's total budget.

**TABLE 3. FY 2009 Budget (Proposed)
Compared With the FY 2008 Budget (Revised)**

	FY 2008 Revised Budget	FY 2009 Proposed Budget	Increase (Decrease) From FY 2008 Budget
Full-time permanent (FTP)	\$28,538,574	\$29,965,007	\$1,426,433
Other than FTP	553,193	601,459	48,266
Other personnel compensation	259,099	236,027	(23,072)
Total personnel compensation	\$29,350,866	\$30,802,493	\$1,451,627
Personnel benefits	8,933,002	9,723,764	790,762
Benefits for former personnel	18,000	18,000	0
Total compensation and benefits	\$38,301,868	\$40,544,257	\$2,242,389
Travel and transportation of persons	3,161,627	3,094,282	(67,345)
Transportation of things	97,500	102,900	5,400
Rent, communications, and utilities	553,979	579,065	25,086
Printing and reproduction	171,206	175,550	4,344
Consulting and other services	3,611,418	3,774,877	163,459
Supplies and materials	515,226	532,859	17,633
Equipment	871,580	836,357	(35,223)
Total budget	\$47,284,404	\$49,640,147	\$2,355,743
Other sources of funding	4,734,404	4,540,147	(194,257)
Current-year assessment	\$42,550,000	\$45,100,000	\$2,550,000
Note: A comparison of FCA's FY 2009 proposed budget request with the FY 2008 revised budget reflects a 4.98 percent increase in overall spending.			

TABLE 4. FCA Obligations, FYs 2005–2009

	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Revised Budget	FY 2009 Proposed Budget
Full-time permanent (FTP)	\$25,475,000	\$24,971,813	\$26,353,824	\$28,538,574	\$29,965,007
Other than FTP	432,000	315,057	374,592	553,193	601,459
Other personnel compensation	160,000	601,071	257,583	259,099	236,027
Total personnel compensation	\$26,067,000	\$25,887,941	\$26,985,999	\$29,350,866	\$30,802,493
Personnel benefits	6,967,000	6,966,238	7,278,424	8,933,002	9,723,764
Former personnel benefits	58,000	29,739	20,205	18,000	18,000
Total compensation and benefits	\$33,092,000	\$32,883,918	\$34,284,628	\$38,301,868	\$40,544,257
Travel and transportation of persons	1,745,000	2,183,176	2,506,872	3,161,627	3,094,282
Transportation of things	54,000	63,701	84,043	97,500	102,900
Rent, communications, and utilities	396,000	431,891	459,592	553,979	579,065
Printing and reproduction	134,000	130,842	17,682	171,206	175,550
Consulting and other services	2,895,000	3,089,645	2,629,472	3,611,418	3,774,877
Supplies and materials	446,000	385,836	423,665	515,226	532,859
Equipment	265,000	183,987	1,190,686	871,580	836,357
Insurance claims and indemnities	0	0	3,017	0	0
Total obligations	\$39,027,000	\$39,352,996	\$41,599,657	\$47,284,404	\$49,640,147

BUDGET AND ASSESSMENT ISSUES

Farm Credit System

FCA's operating costs are covered through direct assessments on System institutions. FY 2008 assessments on System institutions totaled \$42.5 million, an increase of \$1.0 million over FY 2007. The proposed assessment on System institutions in FY 2009 is \$45.1 million, reflecting a \$2.6 million increase over the FY 2008 assessment. Table 5 provides information on FCA's assessments and refunds for FYs 2000 through 2009.

**TABLE 5. FCS Assessments and Refunds,
FYs 2000–2009**

Fiscal Year	Assessment (in millions)	Refund (in millions)
2000	\$35.8	\$2.6
2001	\$36.8	\$2.1
2002	\$36.7	\$0.0
2003	\$36.7	\$2.5
2004	\$38.4	\$2.1
2005	\$39.4	\$1.5
2006	\$40.5	\$0.0
2007	\$41.5	\$0.0
2008	\$42.5	*
2009	\$45.1	*
* Refund amount not yet determined. Note: The above information shows that FCA's assessments have remained relatively steady over time and only recently have begun to increase at a modest rate.		

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac's assessment for FY 2008 is \$2.05 million. As required by regulation, the assessment will be reconciled and adjusted after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2007 were \$2.2 million. The assessment for FY 2009 is expected to be similar to that of FY 2008. However, the anticipated assessment for FY 2009 is not available because the Office of Secondary Market Oversight (OSMO) will not complete the FY 2009 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2008.

FY 2000 and subsequent assessments for Farmer Mac are presented in table 6 and include costs associated with increased examination and oversight activities. OSMO added permanent staff in FYs 2003 and 2004 to handle an expansion in off-site monitoring, oversight, and examination work, commensurate with Farmer Mac's significant growth from 1999 to 2002. Moreover, Farmer Mac's program activity increased sharply again in 2007. Table 6 provides information on the assessment trends for Farmer Mac.

**TABLE 6. Farmer Mac Assessments,
FYs 2000–2009**

Fiscal Year	Assessment (in millions)
2000	\$0.45
2001	\$0.65
2002	\$0.89
2003	\$1.78
2004	\$2.00
2005	\$2.30
2006	\$2.35
2007	\$2.20
2008	\$2.05
2009	\$2.05

Note: Although it is not set until September 2008, Farmer Mac's FY 2009 assessment is expected to be about \$2.05 million, the same as the FY 2008 figure.

Farm Credit Administration

FCS Borrower Costs

FCS borrowers incurred a net cost of 2.2 basis points, or approximately 2.2 cents for every \$100 of assets, to pay for Agency operations in FY 2007. These net cost figures represent a slight decrease in borrower costs from FY 2006, even though FCA's FY 2007 assessment increased by \$1.0 million.

FCS borrower costs are based on the relationship between the System's total assessments and assets (not including Farmer Mac). The FCS held \$179.5 billion in total assets as of September 30, 2007, up from \$154.7 billion a year earlier. Strong growth of System assets combined with controlled growth of the FCA budget has yielded a steady decline in regulatory costs to FCS borrowers. Table 7 shows the borrower cost trends since FY 1998.

**TABLE 7. FCA’s Net Cost to System Borrowers,
FYs 1998–2007**

FY Ended September 30	Basis Points
1998	3.7
1999	3.7
2000	3.5
2001	3.4
2002	3.4
2003	2.9
2004	2.9
2005	2.6
2006	2.5
2007	2.2

Note: The net cost figure is the annual assessment (not including Farmer Mac) adjusted for refunds at the beginning of the fiscal year and divided by total assets at the end of the fiscal year. Since FY 1998, the net cost to borrowers has decreased 1.5 basis points.

FCA Budget Carryover

FCA ended FY 2007 with a budget carryover from previous years of approximately \$20.5 million, of which \$3.5 million has been transferred into the FY 2008 budget. The proposed budget for FY 2009 also includes \$3.9 million of carryover funds. The remaining carryover will be available for use in an emergency situation or in accordance with the Agency’s reserve strategy.

Table 8 presents a ten-year comparison of unobligated balances carried over at the end of each fiscal year.

**TABLE 8. FCA’s Budget Carryover,
FYs 1998–2007**

Fiscal Year	Carryover (in millions)
1998	\$ 7.1
1999	\$ 7.4
2000	\$ 8.1
2001	\$10.4
2002	\$13.9
2003	\$12.0
2004	\$10.1 ^a
2005	\$11.7
2006	\$16.3
2007	\$20.5

^a FY 2005 audit restatement

Staffing

This budget request reflects FCA's commitment to achieving its public mission while adhering to targeted spending levels. It will provide the resources needed to invest in Agency programs for regulation and policy development, risk-based examination and supervision, and the proactive management of systemic risks. At the same time, it will address risk within the System and provide the needed resources to implement initiatives designed to make FCA more effective and efficient.

Projected staffing levels for FYs 2008–2009 increased slightly. The composition of staff is also changing as tenured, experienced people retire and are replaced. Because of continuing retirements and ongoing changes in the technical skills that FCA requires for certain jobs, the Agency will continue to hire and train a number of employees over the next two years. The budget increase for FY 2009 reflects, in part, FCA's commitment to invest in targeted recruiting and training programs for new employees and to maintain safety and soundness in the System.

Table 9 provides the total full-time-equivalent (FTE) levels by office for FYs 2005–2009, whereas table 10 breaks out FCA's budget obligations by office for the same period.

TABLE 9. Total Full-Time-Equivalent (FTE) Levels by Office, FYs 2005–2009

Organizational Unit	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Revised Budget	FY 2009 Proposed Budget
Board	10.3	9.8	9.5	10.2	10.2
Chief Executive Officer (CEO)	4.9	3.5	1.8	1.5	2.0
Communications and Public Affairs ^a	0	0	0	0	0
Congressional and Legislative Affairs ^a	0.8	0	0	0	0
Congressional and Public Affairs ^a	8.6	5.0	6.1	7.5	7.0
Examination	142.7	135.7	141.1	143.4	146.1
General Counsel	16.3	13.7	13.8	15.0	15.0
Management Services	50.2	51.0	46.9	50.5	50.5
Inspector General	4.8	3.9	4.2	4.6	4.6
Secondary Market Oversight	4.0	4.0	3.9	4.0	4.0
Regulatory Policy ^b	28.5	25.4	26.1	26.4	26.5
Total	271.1	252.0	253.4	263.1	265.9
Change from previous year	(19.1)	(19.1)	1.4	9.7	2.8
Change from FY 2004	(19.1)	(38.2)	(36.8)	(27.1)	(24.3)
<p>^a The Office of Communications and Public Affairs and the Office of Congressional and Legislative Affairs were merged into the Office of Congressional and Public Affairs in FY 2005.</p> <p>^b The Office of Regulatory Policy was previously named the Office of Policy and Analysis.</p> <p>Note: The FTE ceiling for FY 2007 was 260.9. The FTEs in the revised FY 2008 budget are slightly more than originally proposed for FY 2008 and the FTE number in the proposed FY 2009 budget reflects a minimal increase.</p>					

TABLE 10. FCA Obligations by Office, FYs 2005–2009

Organizational Unit	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Revised Budget	FY 2009 Proposed Budget
Board	\$1,864,000	\$1,767,937	\$2,057,536	\$2,267,908	\$2,362,659
Chief Executive Officer	911,000	703,583	439,873	368,043	437,491
Chief Operating Officer ^a	1,000	0	0	0	0
Congressional and Public Affairs ^b	1,224,000	893,759	1,074,782	1,379,297	1,340,693
Congressional and Legislative Affairs ^b	99,000	0	0	0	0
Communications and Public Affairs ^b	0	0	0	0	0
Examination	17,816,000	19,165,857	19,840,767	22,467,713	23,973,643
General Counsel	2,628,000	2,527,069	2,501,941	3,093,499	3,234,892
Management Services	9,119,000	8,831,897	9,885,286	11,035,600	11,355,030
Inspector General	828,000	711,158	814,266	1,044,317	1,087,830
Secondary Market Oversight ^c	826,000	940,615	880,857	1,078,558	1,059,484
Regulatory Policy ^d	3,711,000	3,811,121	4,104,349	4,549,469	4,788,425
Total obligations	\$39,027,000	\$39,352,996	\$41,599,657	\$47,284,404	\$49,640,147

^a The Office of the Chief Operating Officer was eliminated in FY 2005 and a new position, Chief of Staff, was added to the Office of the Chief Executive Officer.

^b The Office of Congressional and Legislative Affairs and the Office of Communications and Public Affairs were merged into the Office of Congressional and Public Affairs during FY 2005.

^c Excludes costs of certain offices, such as Examination and General Counsel, that assist in the examination and supervisory activities of Farmer Mac.

^d The Office of Regulatory Policy was previously named the Office of Policy and Analysis.

Note: To realize efficiencies, FCA offices share resources to accomplish various tasks and activities. These shared resources are not reflected in the individual office obligations.



PART II

Farm Credit Administration

PROFILE OF THE FARM CREDIT ADMINISTRATION

The Farm Credit Administration (FCA) was created through an Executive order of President Franklin D. Roosevelt and derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act). As an independent Agency within the Executive branch of the Federal Government, FCA is responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), including the Federal Agricultural Mortgage Corporation (Farmer Mac).

The FCS is the oldest of the financial Government-sponsored enterprises (GSEs). The Farm Credit Act states that the overall objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, it is responsible for providing a flexible flow of reasonably priced money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

As of September 30, 2007, the FCS had \$135.1 billion in outstanding loans to agriculture and rural America; the System had almost a 35 percent share of the total market for agricultural credit.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is grounded in the Agricultural Credit Act of 1987. The Act established Farmer Mac in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. It provides secondary market services through a network of agricultural lenders and intermediaries that includes commercial banks, FCS banks and associations, life insurance companies, and mortgage companies. As of September 30, 2007, the volume of loans, either purchased or guaranteed by Farmer Mac, totaled \$8.4 billion, which represented an estimated 15 percent² of all agricultural mortgage loans that are eligible for Farmer Mac's secondary market operation.

FCA is also required by the National Consumer Cooperative Bank Act of 1978, as amended, to examine and report on the condition of the National Consumer Cooperative Bank (NCB). Since the passage of this law, FCA has conducted safety and soundness examinations of NCB and issued reports of examination to NCB's Board of Directors. NCB is a non-System entity operating as a federally chartered, privately owned banking corporation.

² Farmer Mac employs its own methodology to estimate market share, using USDA farm debt data. According to Farmer Mac's current underwriting standards, approximately 40 percent of the total agricultural real estate lending market is eligible for Farmer Mac programs.

In addition, FCA provides contract examination services to the Farm Credit System Insurance Corporation, the U.S. Department of Agriculture, and the Small Business Administration.

Congressional oversight of the agricultural GSEs and FCA is provided by the U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture. Agency operations are funded through assessments paid by the System institutions; FCA does not receive a Federal appropriation.

Mission Statement

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. To fulfill its mission, the Agency conducts examinations of FCS institutions to monitor and oversee the safety and soundness of their activities. FCA examinations also focus on whether the System is meeting its public mandate to serve all eligible borrowers, especially young, beginning, and small (YBS) farmers. In addition, the Agency undertakes the research, development, and adoption of rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If System institutions violate laws or regulations, or if operations are determined to be unsafe or unsound, FCA may use its enforcement authority to ensure that the problem is corrected in a timely manner. FCA also ensures that the rights of borrowers are protected in several situations. These protections are especially important if the lender-borrower relationship deteriorates because of an adverse credit situation. Other statutory duties require the Agency to issue and amend FCS institution charters, to report to Congress on the System's financial condition and performance, and to approve the issuance of debt obligations.

FCA Board and Governing Philosophy

FCA policy and its regulatory agenda are established by a full-time, three-person Board whose members are appointed by the President of the United States with the advice and consent of the Senate. They serve six-year terms and may not be reappointed after serving a full term or more than three years of a previous member's term. The President designates one member as Chairman of the Board; this member serves as Chairman until the end of his or her term. The Chairman also serves as the Agency's Chief Executive Officer.

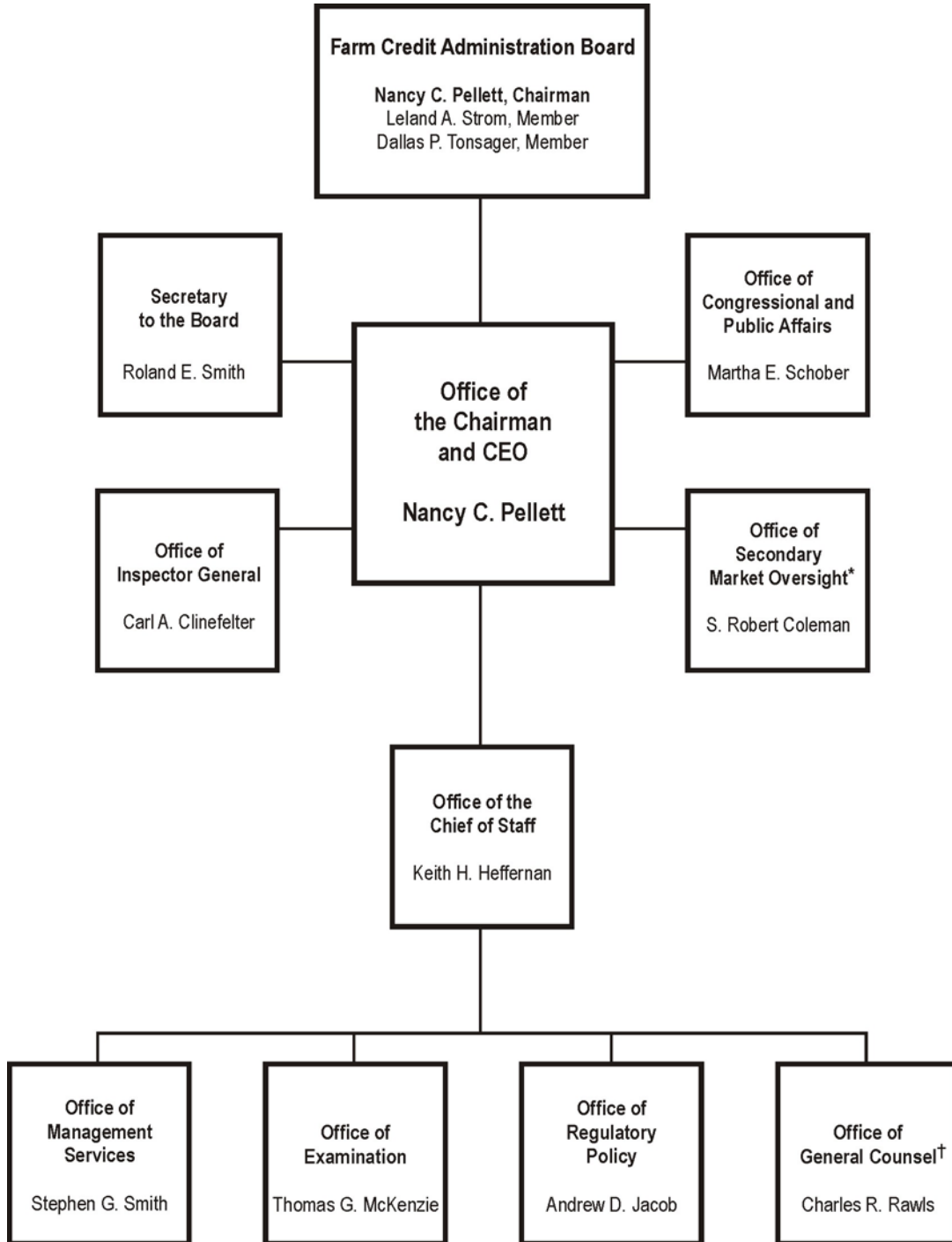
The governing philosophy of the FCA Board is grounded in the Farm Credit Act and the overarching goal of promoting the welfare of agriculture by furnishing sound, adequate, and constructive credit and closely related services to this key sector of the economy. The Board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century. A healthy and strong rural America is a vital component of American society. It benefits the entire Nation by providing the most dependable, safe, and least costly supply of food and fiber in the world.

The FCA Board recognizes that changes in the agricultural and financial marketplace create both risks and opportunities. As the Agency works to address these dynamic forces, the Board commits to working with all constituencies in a reasonable and responsible manner to find thoughtful solutions to these emerging issues. However, the FCA Board's primary regulatory duty remains constant—overseeing the safety and soundness of the FCS.

FCA Organizational Structure

Figure 1 presents the Agency's organizational structure and shows how the line and support offices provide strategic support to the FCA Board and ensure that the Agency's mission and goals are performed effectively and efficiently. The budgetary information for each office is contained in table 10 on page 13. FCA maintains its headquarters and a field office in McLean, Virginia, with field offices in four other locations as well. See the map on page 45 for field office locations.

FIGURE 1. FCA Organizational Chart
As of September 30, 2007



*Reports to the Board for policy and to the CEO for administration.

†Maintains a confidential advisory relationship with each of the Board members.

FCA INTERNAL OPERATIONS

FCA is firmly committed to the continuous development and support of its most valuable asset—its employees. These goals are core elements in the Agency’s human capital management program, which outlines a plan to create an environment that aligns with FCA’s mission. The program focuses on workforce planning and deployment, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of the Human Capital Plan (HCP) is based on guidance provided by the Office of Management and Budget, the Office of Personnel Management (OPM), and the U.S. Government Accountability Office. This guidance, known collectively as Human Capital Standards for Success, ensures that agencies engage in a comprehensive and deliberative evaluation of their human capital needs.

During FY 2007, OPM’s Center for Small Agencies recognized FCA’s FY 2007–2011 HCP as a best practice. The HCP is now included in OPM’s Best Practices binder and is shared as a model for other Federal agencies.

Human Capital Management

Human capital strategies at FCA are linked to the FCA strategic plan through performance measures that are tied to desired outcomes. The Agency continually analyzes its workforce trends, reviewing and updating best practices, as needed. In addition, FCA monitors the changing environment of the FCS so that it can adjust its own staffing as needed by hiring additional employees, training and developing current employees, or reducing staff positions that are no longer necessary.

Workforce planning strategies are reviewed and updated as part of the HCP annual review. Rounded to the nearest whole number, the Agency’s full-time-equivalent staffing levels from FY 2000 through FY 2009 are depicted in table 11.

**TABLE 11. Full-Time-Equivalent
(FTE) Staffing Levels,
FYs 2000–2009**

Fiscal Year	FTE Staffing Level
2000	287
2001	277
2002	270
2003	281
2004	290
2005	271
2006	252
2007	253
2008	263
2009	266

Table 12 provides information on the relationship between the number of Agency managers and supervisors to other personnel for FYs 2000–2009.

TABLE 12. Ratio of Managers and Supervisors to Other Personnel, FYs 2000–2009

Fiscal Year	Ratio
2000	1:8
2001	1:8
2002	1:6
2003	1:6
2004	1:7
2005	1:8
2006	1:6
2007	1:6
2008	1:6
2009	1:6

Note: This comparison shows that the ratio of managers and supervisors to other personnel typically varies within a narrow range.

Each year, FCA studies its workforce to obtain information on critical staffing variables. Among the variables analyzed are the age, grade, and gender of employees, along with five-year projections for retirements and separations. This analysis is important for projecting future staffing needs. At the end of 2007, approximately 18 percent of Agency personnel were eligible to retire; by the end of 2008, this number will increase to approximately 20 percent. Approximately 25 percent of employees are projected to retire by the end of FY 2009. However, over the past three years, the number of employees who have been employed five years or fewer has risen substantially; these employees now constitute a sizable portion of the Agency’s workforce. Thus, the average tenure of employees will decrease as senior staff members retire. Table 13 provides information on retirement eligibility projections at FCA.

**TABLE 13. FCA Retirement Eligibility,
FYs 2008–2012**

Fiscal Year	Eligible Retirements
2008	13
2009	18
2010	9
2011	8
2012	7
<p>Note: Eighteen of FCA's 256 employees become eligible to retire in FY 2009. Furthermore, staffing projections show that 93 staff members, or approximately 36 percent of the staff, will be eligible to retire between FYs 2008 and 2012. (This number includes 38 staff members who became eligible for retirement prior to FY 2008.)</p>	

Implementing the Human Capital Plan

The Agency is addressing the challenges of its retirement projections to ensure that it maintains a high level of institutional knowledge, job skills, and analytical expertise in its workforce. In addition to succession planning and cross-training, FCA provides a variety of resources and programs for sharing knowledge across the organization. During FY 2007, these efforts were coordinated by an HCP Oversight Group to ensure maximum efficiency and effectiveness. Five primary workgroups—Continuous Learning, EEO/Diversity, Long-Term Rotational Assignment, Recruiting, and Visiting Scholar—implemented the goals of the HCP under the Oversight Group's guidance. This work will continue throughout FY 2008.

A dynamic culture of continuous learning has been created and sustained at FCA through a strategy emphasizing leadership, competencies, and knowledge management. Succession planning is an important element in FCA's learning culture. By maintaining access to education, training, and other developmental opportunities, the Agency seeks to cultivate a work environment that attracts and retains bright, creative, and enthusiastic people. One of the Agency's primary goals is to identify its human capital needs over the next five years, including the size of its workforce and the skill sets of its employees. To accurately gauge human capital requirements, assessments take place at all levels of the Agency. The results are used to develop, enhance, and redirect training and development programs.

Training goals are coordinated with the leadership skills and competencies that the Agency identifies as necessary to carry out its mission. The goals are comprehensive, developed at the office level and through individual development plans (IDPs). IDPs serve as the primary means of managing and planning employee training and development activities, projecting short- and long-term goals over a two-year period. They also are used for projecting budget justifications for training resources and are linked to FCA's Performance Management System. Supervisors and employees collaborate on ongoing and proposed training and development goals during mid-year and annual performance reviews. Formal training programs support the needs of core occupational groups through a variety of methods, such

as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, as a matter of policy, all employees have regular access to training on FCA's computer systems.

Knowledge management is another key component of the Agency's continuous learning strategy. As vacancies in critical fields are projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge and skills. The transfer of knowledge is further enhanced through policies on training and employee development that are reviewed and updated regularly.

FCA's electronic databases are another source of knowledge management and best practices. Databases, such as the Policies and Procedures database, electronic examination files, and the Training and Evaluations database, enable employees to communicate and share knowledge to facilitate internal operations.

In recognition of the value that diversity brings to the Agency, FCA continually develops initiatives and events to attract and retain staff with varied backgrounds and skills. FCA endorses programs that promote equal employment opportunity (EEO) and diversity, and it supports an active EEO program.

Long-term rotational assignments enhance employee knowledge and expertise. Through an organized program that encourages offices and employees to participate in rotational assignments, employees gain a deeper understanding of the Agency's mission. Rotational assignments build teamwork and collaboration and enhance the motivation and productivity of employees.

Guidelines are being developed to select visiting scholars from universities and other organizations to work with Agency employees. Through this sharing of knowledge and expertise, FCA will retain employees with the expertise needed to conduct the examination and regulatory activities that protect the safety and soundness of the FCS.

FCA Compensation Program

The Federal Institutions Reform, Recovery, and Enforcement Act of 1989 requires Federal financial regulators to strive to achieve comparability in all compensation and benefit programs. Specifically, section 1206 of the Act directs FCA and other Federal Bank Regulatory Agencies (FBRAs) to "seek to maintain comparability regarding compensation and benefits." These provisions enable FBRAs to attract and retain qualified staff. The Agency annually surveys the FBRAs, the private sector, the System banks, and the General Schedule agencies and adjusts its employees' compensation and benefits accordingly.

FCA's compensation policy is designed to provide compensation at a level similar to the average market rate provided by other FBRAs, taking into account compensation and benefits provided under the General Schedule and in the private sector. FCA is achieving this objective through a yearly reevaluation of its program relative to the compensation practices of the other Federal financial regulators.

Locality pay differential

Although FCA has a national salary structure, it offers locality pay differentials to compensate employees for the higher costs of labor at certain duty stations, which is

consistent with the practices of the other FBRA's and agencies on the General Schedule. The pay differentials, shown in table 14, supplement base salaries and may be revised in accordance with the annual review of current data and available funding.

TABLE 14. FCA Locality Pay Rate, FY 2008

Location	Pay Adjustments (%)
Bloomington, Minnesota (Field Office)	8.8
Dallas, Texas (Field Office)	6.8
Denver, Colorado (Field Office)	10.5
McLean, Virginia (Headquarters and Field Office)	15.4
Sacramento, California (Field Office)	13.4

Note: Locality pay is added to base salary, is creditable for employee benefits, such as retirement and thrift savings calculations, and is based on variations in the competitive cost of labor found in the vicinity of duty stations.

Salary adjustments

FCA uses a fully integrated pay-for-performance program that adjusts employee salaries annually using a merit pay matrix (table 15) that provides for variable adjustments based on the employee's performance rating and salary range position. Each salary range is divided into five positions, or quintiles. The Agency reviews the matrix and makes annual adjustments based on a number of factors, including the salary programs of other Federal financial regulators, private sector compensation trends, available funding, and FCA's overall performance and accomplishments during the previous fiscal year.

TABLE 15. FCA 2008 Percent Increases in Pay by Performance Ratings and Salary Range Quintiles

RATING	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile	Exceeds Range Maximum
Outstanding	6.6	6.3	5.8	5.5	5.2	4.2
Excellent	4.5	4.2	3.7	3.4	3.1	2.2
Fully successful	3.4	3.1	2.6	2.3	2.0	1.2
Minimally successful	0.0	0.0	0.0	0.0	0.0	0.0
Unsatisfactory	0.0	0.0	0.0	0.0	0.0	0.0

Salary ranges for FCA employees

The Agency's current base salary ranges are provided in table 16.

TABLE 16. FCA Salary Ranges for Calendar Year 2008

Pay Grade	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile	Midpoint
45	\$173,103– 190,414	\$190,415– 207,724	\$207,725– 225,034	\$225,035– 242,344	\$242,345– 259,655	\$216,379
44	\$150,393– 165,432	\$165,433– 180,471	\$180,472– 195,511	\$195,512– 210,550	\$210,551– 225,589	\$187,991
43	\$132,249– 145,474	\$145,475– 158,699	\$158,700– 171,923	\$171,924– 185,148	\$185,149– 198,373	\$165,311
42	\$115,594– 127,154	\$127,155– 138,713	\$138,714– 150,273	\$150,274– 161,832	\$161,833– 173,392	\$144,493
41	\$101,038– 111,141	\$111,142– 121,245	\$121,246– 131,349	\$131,350– 141,453	\$141,454– 151,556	\$126,297
40	\$88,313– 97,144	\$97,145– 105,975	\$105,976– 114,807	\$114,808– 123,638	\$123,639– 132,469	\$110,391
39	\$77,191– 84,910	\$84,911– 92,629	\$92,630– 100,349	\$100,350– 108,068	\$108,069– 115,787	\$96,489
38	\$67,470– 74,217	\$74,218– 80,964	\$80,965– 87,710	\$87,711– 94,457	\$94,458– 101,204	\$84,337
37	\$58,974– 64,872	\$64,873– 70,769	\$70,770– 76,667	\$76,668– 82,564	\$82,565– 88,462	\$73,718
36	\$51,547– 56,702	\$56,703– 61,857	\$61,858– 67,011	\$67,012– 72,166	\$72,167– 77,321	\$64,434
35	\$45,054– 49,560	\$49,561– 54,065	\$54,066– 58,571	\$58,572– 63,076	\$63,077– 67,582	\$56,318
34	\$39,381– 43,319	\$43,320– 47,257	\$47,258– 51,195	\$51,196– 55,133	\$55,134– 59,071	\$49,226
33	\$34,422– 37,864	\$37,865– 41,306	\$41,307– 44,748	\$44,749– 48,190	\$48,191– 51,632	\$43,027
32	\$32,782– 36,060	\$36,061– 39,338	\$39,339– 42,616	\$42,617– 45,894	\$45,895– 49,172	\$40,977
31	\$31,222– 34,344	\$34,345– 37,466	\$37,467– 40,588	\$40,589– 43,710	\$43,711– 46,832	\$39,027
30	\$29,734– 32,708	\$32,709– 35,681	\$35,682– 38,655	\$38,656– 41,628	\$41,629– 44,602	\$37,168

External Contracting and Shared Services

Outsourcing

The Agency's shared-service agreement with the Bureau of the Public Debt began in FY 2006.

In FY 2007, FCA outsourced its payroll services to USDA's National Finance Center (item 2), its Employee Assistance Program services to ComPysch (item 3), and its retirement counseling services to GRA, Inc. (item 5). Outsourcing these services allowed the Agency to manage its employee benefits without additional personnel costs.

TABLE 17. Outsourcing, FY 2007

Contract	Purpose	Amount
1. Administrative Service Center (BPD)	To replace the financial management system and to provide travel, accounting, credit card, and procurement services	\$729,532
2. National Finance Center (USDA)	To provide payroll services	\$31,239
3. ComPysch	To provide Employee Assistance Program services	\$4,797
4. Benefits Administrative Services	To administer the Flexible Spending Account Plan	\$16,114
5. GRA, Inc.	To provide retirement counseling services	\$70,780
Note: FCA functions outsourced during FY 2007 totaled \$852,462.		

Single Source and Competitive Consulting Service Contracts

Tables 18 and 19 provide a summary of the Agency's single source and competitive consulting service contracts for FYs 2006 and 2007.

TABLE 18. Single Source (SS) and Competitive Consulting Service (CCS) Contracts, FY 2006

Contract	Purpose	Amount
1. Editorial Experts, Inc. (CCS) 06-FCA-0002	To provide a writer-editor familiar with publications and other documents produced by the FCA Office of Congressional and Public Affairs.	\$39,910
2. Sana Reynolds (SS) 06-FCA-056	To provide communication and presentation training to examiners.	\$3,750
3. Sana Reynolds (SS) 06-FCA-00005	Same as above.	\$5,900
4. Sana Reynolds (SS) 06-FCA-0042	Same as above.	\$6,252
5. Harper, Rains, Knight & Co. (CCS) 06-FCA-050	To perform an audit of FY 2005 Financial Audit Statement of FCA and a mandatory evaluation of the Agency's information security program and practices. This contract constituted the third and final year of contract 03-FCA-073.	\$90,186
6. Blue Ridge Consultancy, LLC (SS) 06-FCA-059	<i>Phase 1:</i> To prepare (1) a report on the situation and outlook of the cooperative rural electric power lending sector and (2) a detailed guide to underwriting standards for loans to rural electric cooperatives. <i>Phase 2:</i> To review loans made by rural electric cooperatives that serve as collateral to certain mission-related investments of Farmer Mac and to suggest ways for Farmer Mac to address findings from the collateral reviews or to modify its operational policies and procedures.	\$30,000
7. Thomas Holland (SS) 06-FCA-0011	To assist FCA in evaluating various functions at FCS institutions and related entities. The contractor's task was to provide observations, analyses, conclusions, recommendations, and advice to FCA regarding the evaluation/review findings.	\$17,130
8. Thomas Holland (SS) 06-FCA-450-01	Same as above.	\$25,000
9. iFar (SS) 06-FCA-0022	To provide FCA staff with insight on the fundamentals of the Farmer Mac Risk-Based Capital (RBC) Model and general information on other risk models used by the System. The contractor's task was to prepare and present a training course developed according to the outline approved by FCA.	\$5,640
10. iFar (SS) 06-FCA-0045	Same as above.	\$39,160
11. Personnel Decisions Research Institute, Inc. (SS) 06-FCA-0044	To provide training and consulting services related to the Examiner Commissioning Test from September 24 to 27, 2006.	\$5,477
12. Robert Andros (SS) 06-FCA-037	To review and analyze regulation areas as specified by FCA's Office of Regulatory Policy and to advise on the final governance regulation and proposed assessment rule.	\$36,000
13. Robert Andros (SS) 06-FCA-911-01	Same as above.	\$18,000
14. iFar (SS) 02-FCA-C01-Mod. 6	To provide FCA staff with insight on the fundamentals of the Farmer Mac RBC Model and general information on other risk models used by the System.	\$97,400

Note: The Agency's SS and CCS contracts totaled \$419,805 in FY 2006.

TABLE 19. Single Source (SS) and Competitive Consulting Service (CCS) Contracts of More Than \$25,000, FY 2007

Contract	Purpose	Amount
1. Gartner Group TPD-FCA-07-K00001 (SS)	To provide premier membership for FCA staff in the Gartner Executive Program and tickets for the Gartner Symposium.	\$42,970
2. Reed Elsevier, Inc. TPD-FCA-07-K-00008 (SS)	To renew Lexis/Nexis online subscription.	\$64,532
3. WestGroup TPD-FCA-07-K-00011 (SS)	To renew subscriptions.	\$36,110
4. USPS TPD-FCA-07-00018 (SS)	To provide usage of a postage meter.	\$28,350
5. iFar 07-FCA-C-01 (SS, CSS)	To provide technical expertise and training to aid FCA in evaluating capital adequacy in FCS institutions.	\$60,000
6. T.J. Holland Consulting 07-FCA-C-02 (SS, CSS)	To examine the accounting practices at Farmer Mac.	\$25,616
7. Citibank/Franey Muha Alliant Insurance Co. (SS)	To provide insurance endorsement to cover FCA employees.	\$39,416
8. Citibank/Corporate Leadership Council (SS)	To provide current research, training, and an online database related to human capital.	\$33,300
9. Planet Technologies (SS, CSS)	To complete the Integrated Microsoft Solution pilot and evaluation.	\$177,720
10. Personnel Decisions Research Institutes, Inc. (SS, CSS)	To validate the FCA Commission Testing technical evaluations for the Associate Examiner Training Program.	\$120,500
11. Grand View Lodge (SS)	To host the beginning examination training school. Services included providing conference and lodging rooms, audiovisual equipment, and incidentals.	\$25,220
12. Bloomberg, LP (SS)	To provide Bloomberg Anywhere and Bloomberg Professional online subscription services.	\$36,000
13. Farm Credit System Building Association (SS)	To provide telephone services.	\$303,900
14. McCourt and Associates (SS)	To provide materials for two leader kits of the Wilson Learning Corporation course, a video license, and student participant and social style kits.	\$29,305
15. LRP Publications, Inc. (SS)	To provide two e-learning modules.	\$40,275
16. Ninth House, Inc. (SS)	To provide e-learning training subscriptions.	\$38,100

Other Functions and Activities

Reception and Representation Expenditures

FCA spent \$3,184 on reception and representation expenses in FY 2007.

Foreign Travel Expenditures

Two FCA staff members made several visits to Armenia in FY 2007. The Agency sent these employees to Armenia to enable them to participate in USDA's Foreign Agricultural Service (FAS) program in Armenia. The two employees provided training, advice, and other services to the Ministry of Agriculture of the Government of Armenia and to the Center for Agribusiness and Rural Development of Yerevan, Armenia, to help establish an Armenian Farm Credit System. The USDA/FAS reimbursed the Agency for costs associated with FCA staff participation in this program, and it directly paid for all travel arrangements to Armenia.

Reimbursements

FCA performs various examinations, training, and other services for Federal agencies and private business and is reimbursed for this work. In FY 2007, it performed the following services and was reimbursed as noted:

- SBA—examination, training, and other services; \$980,314
- USDA—examination, training, and other services; \$1,208,484
- Farm Credit System Insurance Corporation (FCSIC)—examination, training, and other services; \$251,516
- National Consumer Cooperative Bank (NCB)—examination services; \$192,420

Leveraging FCA Technology

Leveraging technological resources was an important initiative during FY 2007. Improvements to FCA's Web site included a user-friendly portal that collects information from FCS institutions in a reliable, secure environment. The Agency also enhanced its ability to disseminate information to the System and the public. A new electronic subscription feature eliminated the need for FCA examiners to continually monitor the Web site for System information. This application of push technology allowed examiners additional time to focus on risk-related issues and other examination activities.

Two multiyear projects gained momentum in FY 2007 and will continue through FY 2008:

1. Through the *Workflow Integration Initiative*, the Agency has identified, documented, and evaluated FCA's business processes—that is, its examination activities, regulatory development activities, and services—in terms of procedures, relevancy, efficiency, and cost-effectiveness. This information is being used to automate or enhance business processes through the Agency's information technology (IT) infrastructure; for example, FCA plans to develop a "dashboard" application that will provide access to vital information in areas such as budget, staffing, and security.

2. Through the *Infrastructure Review Initiative*, FCA has evaluated its IT infrastructure; the data collected through this evaluation are being used to improve the efficiency of the Agency's IT architecture in delivering information.

Strategic Plan, FYs 2004–2009

The Government Performance Results Act of 1993 requires the FCA Board to establish the strategic direction of the Agency. The Board's plan for FYs 2004–2009 defines the Agency's mission and goals for its stakeholders, including FCA staff, and prioritizes the issues, functions, and programs that require an investment of resources.

Goal 1—Public Mission: The FCA Board is committed to emphasizing the public purpose and mission-related responsibilities of the FCS institutions while ensuring that they operate in a safe and sound manner. To this end, FCA provides a regulatory environment that permits System institutions to compete effectively in the marketplace and that encourages FCS institutions to identify and develop partnerships and alliances with other public and private financial service providers to address the growing needs of agriculture and rural America for credit and other financial services.

The Agency has established six performance measures to gauge its progress in achieving this goal. Its performance measures focus on using supplemental approaches to ensure that FCA gathers a diverse range of public input on the Agency's regulatory initiatives. The measures also look at Farmer Mac's mission and provide a basis for determining its progress and effectiveness.

Goal 2—Safety and Soundness: Most FCA resources are used to evaluate risk and to provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac. The money is used to preserve and enhance FCA's examination and supervision program through a well-trained, professional, and experienced examination staff; to stay abreast of changing market forces, economic developments, and customer needs; to use technology to conduct examinations more efficiently; and to undertake supervisory actions, when needed, to ensure safety and soundness in the System and Farmer Mac. The Agency uses seven measures to monitor progress for goal 2.

Goal 3—The President's Management Agenda: FCA has implemented policies and programs that support the five Government-wide initiatives in the President's Management Agenda. The initiatives are (1) strategic management of human capital, (2) improved financial performance, (3) expansion of electronic government, (4) budget and performance integration, and (5) competitive sourcing. The Agency has five performance measures for goal 3.

The Agency fully supports the President's Management Agenda. FCA outlays have grown slightly but significantly less than the institutions it regulates, as it has adopted new information technology, outsourced more functions, and reorganized its staff to capitalize on the talents and skills of its employees. FCA has also used strategic workforce planning to develop its HCP to ensure that it recruits, trains, and retains a high-performing workforce. For several years, FCA has used performance budgeting to establish performance parameters, and it has established performance measures to monitor effectiveness and efficiency. Through a continuous monitoring and evaluation process, FCA is fulfilling its stewardship responsibilities in a cost-effective and efficient manner.

Independent Auditing and Accountability

Brown & Company CPAs, PLLC, was engaged by the Office of Inspector General to perform the annual audit of FCA's financial statements. On November 5, 2007, Brown & Co. issued an opinion letter relating to the audit of the Agency's financial statements ending September 30, 2007 and 2006. Brown & Co. opined that the principal financial statements presented fairly, in all material respects, the financial position of FCA as of September 30, 2007 and 2006, in conformity with generally accepted accounting principles. In addition, the auditor found no material weaknesses in internal control over financial reporting. The auditor also noted no reportable instances of statutory or regulatory noncompliance that could have a direct and material effect on the determination of financial statement amounts. FCA's Inspector General concurred with the reports and stated that Brown & Co.'s work provided a reasonable basis for its opinion.

ENSURING THE SAFETY AND SOUNDNESS OF THE FCS

The Farm Credit System

Statutory Requirements

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. FCA meets this requirement through a risk-based process of oversight and examination. In addition to conducting examinations of individual institutions, FCA conducts national examinations of specific issues and operational areas to monitor the condition and operations of the System as a whole.

This risk-based approach is designed to maximize effectiveness and efficiency while addressing FCS risk. A variety of methods are used to foster proactive, constructive communication with regulated institutions. In addition to examining FCS institutions, including Farmer Mac, FCA is also responsible for examining the National Consumer Cooperative Bank (NCB), a national bank specializing in co-op, condo, and single-family home loans. NCB is not an FCS institution.

FCA Regulation 12 CFR 621.12 requires each FCS institution, as well as Farmer Mac, to prepare and file reports of condition and performance. These quarterly reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information. FCA Regulation CFR 630.4 requires the Federal Farm Credit Banks Funding Corporation to prepare consolidated FCS information and to make this information available to the public.

System institutions also submit additional information through FCA's Consolidated Reporting System, which is available to the public on FCA's Web site (www.fca.gov). FCA also collects loan-level data for all System institutions through the Loan Account Reporting System. Section 5.9(4) of the Farm Credit Act establishes the Agency's authority to require any such reports it deems necessary from System institutions. Collectively, this information is essential to the Agency's ability to monitor the safety and soundness of the FCS.

Risk-Based Examination and Supervision

FCA's examination and supervision processes address material risks and emerging issues in a proactive, nationally focused way. FCA allocates examination resources to matters of highest priority and potential risk within individual institutions and the FCS as a whole. This approach recognizes both an FCS institution's responsibility and its ability to identify and manage both institution-specific and systemic risks. When institutions are either unable or unwilling to address unsafe and unsound practices or to comply with applicable laws and regulations, FCA takes appropriate supervisory action.

FCA's examination and oversight program promotes accountability in FCS institutions for their programs, policies, procedures, and controls. These business operations provide the necessary framework for institutions to identify and manage risks. FCA also establishes policies and regulations to ensure that key risk areas are addressed throughout the System. For example, its regulations require FCS institutions to have effective loan underwriting and loan administration processes, to maintain strong asset-liability management capabilities, and to establish high standards for governance and transparent disclosures for shareholder

oversight. Most issues are resolved through corrective actions established in the Report of Examination or other communications. In extreme cases, FCA will use its enforcement powers to effect changes in the institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations.

FCA has developed a comprehensive regulatory and supervisory framework that promotes and helps ensure the System's safety and soundness. FCS institutions have developed effective risk-management cultures in response to FCA's examination and supervision programs and its policies and regulations. These programs, policies, and regulations continue to set high standards for the System. An example of such standards was the governance regulations, which became fully effective in 2007.

The Agency's examination responsibilities are carried out by examiners located in five field offices. One field office is maintained at the McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. FCA does not anticipate any change in its field office structure in FY 2009. (See the map on page 45 for FCA field office locations.)

Identifying and Responding to Potential Threats to Safety and Soundness

Because of the evolving dynamics and risks in the agricultural and financial industries, FCA must ensure that FCS institutions have the appropriate governance, policies, procedures, and management controls to effectively identify and manage risks. For the Agency to be effective in meeting this challenge, it must take a proactive, nationally focused approach to identifying and addressing risks and emerging issues that can affect an institution or the System as a whole.

This is accomplished through a National Oversight Plan that uses various methods to address areas requiring oversight emphasis (focus areas). The National Oversight Plan is designed to better enable FCA to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. It emphasizes increased and more proactive internal and external communications on emerging risks, Agency expectations, and areas of examination and oversight emphasis.

The Agency's National Oversight Plan focuses on the following areas:

- asset growth
- capital markets activity (lending)
- internal audit and credit review programs
- systemic and portfolio risks
- enterprise-wide counterparty risk
- capital management
- implementation of governance regulations
- young, beginning, and small farmer and other credit needs
- information technology
- compliance with consumer and borrower rights regulations

Measuring the Safety and Soundness of the System

The Financial Institution Rating System (FIRS) is a key method the Agency uses to assess the safety and soundness of each FCS institution. Similar to systems used by other Federal financial regulators, the FIRS is a CAMELS-based system—that is, a system in which six components (capital, assets, management, earnings, liquidity, and sensitivity) are rated to properly reflect the degree of risk in an institution.

The FIRS provides a general framework for evaluating and assimilating all significant financial, asset quality, and management factors to assign component and composite ratings. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

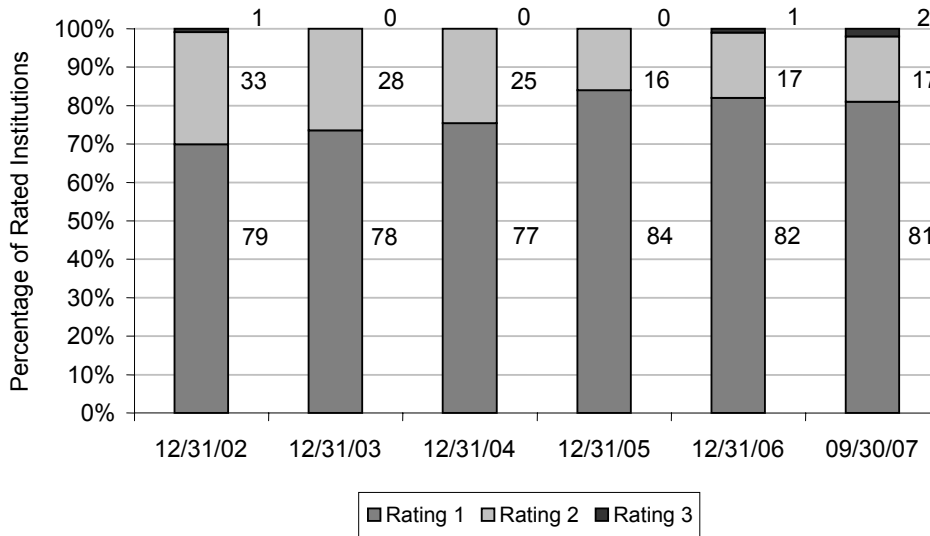
Examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in the FCS. The Agency maintains both quantitative and qualitative benchmarks as general guidelines to help examiners apply the FIRS process consistently. FCA discloses these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution board with an assessment of management's performance, the quality of assets, and the financial condition and performance of the institution.

Current composite FIRS ratings continue to indicate strong financial condition and performance and a fundamentally safe and sound FCS. As of September 30, 2007, ratings remain favorable:

- 81 institutions were rated 1,
- 17 were rated 2, and
- 2 were rated 3. (See figure 2.)

The overall financial strength maintained by the System reduces the risk to investors, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders. A more detailed discussion of the financial condition and performance of the System is included in part III.

FIGURE 2. Farm Credit System Financial Institution Rating System (FIRS) Composite Ratings



Source: FCA's FIRS Ratings Database.

Beginning in 2006, FCA supplemented the FIRS process with another tool that uses more granular risk assessment criteria. The risk assessment areas include credit, interest rate, liquidity, operations, compliance, strategy, and reputation. A testing period was completed for the process, and needed changes are being incorporated for its use by examiners.

FCA uses this new tool to allocate Agency resources based on risk. Using both traditional FIRS ratings and the added risk assessment criteria, the Agency sets its oversight strategies based on institution size, existing risk exposure, and the scope and nature of each institution's business model.

Summary of FCS Examinations

In FY 2007, FCA conducted oversight and examination activities on

- 95 FCS direct-lender associations,
- four Farm Credit Banks,
- one Agricultural Credit Bank,
- five service corporations,
- Farmer Mac,
- the National Consumer Cooperative Bank, and
- some activities of SBA and USDA.

SBA contracted with FCA to conduct examinations of financial companies licensed by SBA to make guaranteed loans to small businesses. USDA contracted with FCA to conduct examinations of financial companies authorized by USDA to make guaranteed loans under USDA's Business and Industry (B&I) Guaranteed Loan program. FCA examiners also completed reviews of B&I program operations at selected USDA State offices.

FCA plans to discontinue contract examination work for SBA in FY 2009. This will allow the Agency to focus additional resources on examining System operations and addressing material risks and emerging issues as the need arises.

Federal Agricultural Mortgage Corporation

As part of its regulatory duties, FCA, through its Office of Secondary Market Oversight (OSMO), examines and supervises Farmer Mac to ensure both its safety and soundness and its mission achievement. OSMO performs annual comprehensive CAMELS-based examinations—that is, examinations based on capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO reviews Farmer Mac's condition and its compliance with the risk-based capital regulations and supervises its operations.

Assessment of Statutory Authorities and Regulations

Farmer Mac is regulated by FCA through OSMO, which was established in 1992 as a result of the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102-237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO constitute a separate office reporting to the FCA Board and that its activities, to the extent practicable, be carried out by individuals not responsible for supervising the banks and associations of the FCS.

Data Reporting Requirements

Farmer Mac is required to submit quarterly Call Reports to OSMO in addition to meeting several other periodic reporting requirements related to regulatory risk-based capital, mission, liquidity, and its financial derivatives portfolio. In addition, Farmer Mac is subject to disclosure and reporting requirements of the Securities and Exchange Commission.

Summary of Examination

Farmer Mac experienced significant growth in its portfolio of loans and guarantees in 2007. Program activity was up 18.6 percent to \$8.4 billion in FY 2007 from FY 2006. Farmer Mac held cash and nonprogram investments on its balance sheet of \$3.25 billion at the end of FY 2007. Of this volume, \$905 million is the result of investments in the rural electric utilities sector. Credit quality has improved and real estate-owned volume is down.

In November 2006, Farmer Mac restated its financial results for 2006 and several other periods to remove the impact of accounting for derivatives as hedges against interest rate movements. As a result, its net income has fluctuated more since the change, as expected.

Farmer Mac's net income for the 12 months ended September 30, 2007, was \$21 million, a 38 percent decrease from 2006. It had core capital of \$250 million as of the end of FY 2007, compared with \$237 million at the end of FY 2006. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet items is set in the statute and was \$197 million at the end of FY 2007. Thus, Farmer Mac exceeded its minimum core capital requirement by nearly \$54 million. At end of FY 2007, Farmer Mac had \$254 million in regulatory capital available to meet the \$44 million minimum requirement established by FCA's Risk-Based Capital (RBC) Model.

RBC Model

Section 8.32 of the Farm Credit Act requires that the RBC Model subject Farmer Mac to credit losses on agricultural mortgages it owns or guarantees. The rate of loan default and severity of losses must be reasonably related to those experienced in contiguous areas of the United States containing at least 5 percent of the total U.S. population that experienced the highest rate of default and severity of agricultural mortgage losses during a historical period of at least two consecutive years. The Act also required the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling interest rates on Treasury obligations of various terms. In addition to the credit loss and interest rate risk components of the RBC Model, Farmer Mac is required to maintain additional capital to protect against management and operational risks. This additional capital specified in the Act is 30 percent of the capital level required for the sum of the credit loss and interest rate risk components of the RBC Model.

The output of the stress test depends on Farmer Mac's risk profile. High-risk loan assets or significant interest rate risk exposure cause the RBC Model to calculate a higher regulatory capital requirement. Conversely, if Farmer Mac maintains a low-risk profile in both its loan portfolio and interest rate risk exposure, the stress test will calculate a correspondingly low capital requirement. Farmer Mac is required by regulation to have its operation of the model validated by an independent third party at least every three years. It completed this requirement for the first time in 2006. The independent party concluded that Farmer Mac was operating the model appropriately.

On December 26, 2006, a final rule to amend the regulation governing the RBC was published and became effective in the first quarter of calendar year 2007. The Agency published a proposed rule in September 2007 to amend the regulation further. That final rule is expected to be published in early 2008.

DEVELOPING REGULATIONS AND POLICIES

FCA routinely issues regulations, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission. The FCA Board's policy statement on regulatory development highlights the System's cooperative structure and its unique role as an agricultural lender.

The Agency's regulatory philosophy articulates its commitment to establish a flexible regulatory environment that enables the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. This commitment translates into the development of balanced, well-reasoned, and flexible regulations that weigh both the benefits and costs to the Agency's regulated entities. FCA objectives are to enhance the System's relevance in the marketplace and rural America, while remaining consistent with the law and safety and soundness principles, and to promote participation by member-borrowers in the management, control, and ownership of their GSE institutions.

Regulatory and Policy Projects Active at Year-End FY 2007

The FCA Board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives to implement any statutory changes or to address other regulatory issues. The Agency publishes its Unified Agenda and Regulatory Performance Plan on the FCA Web site and in the *Federal Register* to notify the public of its upcoming regulatory actions and to encourage the public to participate in the regulatory process. The FCA Board-approved Unified Agenda is published each fall and updated in the spring.

The following list summarizes the Agency's current regulatory efforts, plus other guidance that is under consideration in FY 2008. The second list identifies projects that were completed in FY 2007 along with a few communications that were recently issued to System institutions to clarify FCA's rules.

Annual Report to Shareholders—The FCA Board will act on a **final rule** to extend the number of days for System institutions to prepare and distribute annual reports to shareholders to 90 calendar days (while retaining the 75-calendar-day requirement for electronic reporting and distribution to FCA).

Revisions to Farmer Mac Risk-Based Capital Model—The FCA Board will act on a **final rule** to revise the stress test to better accommodate the terms and structure of certain program business underwritten by Farmer Mac. In August 2007, the FCA Board approved a **notice of proposed rulemaking** to revise the stress test.

Investments in Rural America—The FCA Board will act on a **notice of proposed rulemaking** and a **final rule** concerning the types of partnerships and investments the System can make to improve the availability of funds to agriculture and rural America.

Lending Program Requirements—FCA continues to **research** the existing statutory and regulatory requirements on lending programs that System institutions are authorized to offer their customers, including appropriate underwriting criteria.

Processing and Marketing—FCA is developing a **final rule** to change the ownership requirement for determining the eligibility of processing and marketing entities for FCS funding.

Scope of Lending – Moderately Priced Housing and Related Issues—The FCA Board will act on a **notice of proposed rulemaking** that describes how to determine the upper bounds for “moderately priced” rural housing.

Financial- and Farm-Related Services—FCA will continue to **review** potential regulatory changes to address the System’s financing of farm-related service businesses and the System’s providing related services to members consistent with statutory authority.

Regulatory Burden—FCA will develop a **notice and comment** for the removal or revision of outdated, unnecessary, or burdensome regulations. In most cases, the public is asked to comment on any regulation; during this cycle, however, the Agency will select specific regulations for public comment.

Disclosure and Accounting Requirements—The FCA Board will act on a **notice of proposed rulemaking** to change existing regulations on accounting and disclosure to shareholders and investors.

Capital Adequacy – Basel Accord—The FCA Board published an **advance notice of proposed rulemaking** on capital adequacy requirements for the System patterned after the standardized approach of Basel II.

Regulatory and Policy Projects Completed During FY 2007

Regulatory Burden Solicitation—FCA published a **final rule** that repealed and revised certain FCA regulations to reduce the regulatory burden on the FCS. Passage of this rule is part of the Agency’s continuing effort to streamline the regulatory process so the System can more efficiently fulfill its mission to provide a dependable source of credit to America’s farmers, ranchers, aquatic producers, cooperatives, and rural residents.

Disclosure and Reporting—The FCA Board adopted a **final rule** to modify regulatory disclosure and reporting requirements to improve the transparency of published disclosures, to strengthen board and management accountability and auditor independence, and to increase shareholder and investor confidence in the System.

Farmer Mac Risk-Based Capital (RBC) Stress Test—The FCA Board adopted a **final rule** to update the RBC Model in response to changing financial markets, new business practices, and the evolution of Farmer Mac’s loan portfolio.

FCS Bank- and Association-Appointed Directors—FCA issued a revised **Bookletter** (BL-009) affirming that all directors appointed to the boards of FCS banks or associations have the same fiduciary responsibilities and voting rights. The Bookletter also clarified that all directors are subject to the same disclosures and conflicts of interest rules and requirements, and encouraged institutions to apply the same terms of office and the same removal provisions to all appointed directors.

Joint and Several Liability – Priority of Claims—FCA published a **final rule** that responded to a regulatory petition from System banks to modify priority of claims rights if payments are

made under a reallocation agreement to holders of consolidated and Systemwide obligations on behalf of a defaulting System bank. The final rule also clarifies that payments to a class of claims will be on a pro rata basis.

Subordinated Debt – Priority of Claims—FCA issued a **direct final rule** amending the regulations to clarify the claims priority of subordinated debt in the event the assets of a System institution are liquidated.

Zero Percent Capital Risk Weighting of Guaranteed Portions of Loans Purchased in the Secondary Market—FCA issued an **Informational Memorandum** to clarify when a loan guarantee by a Government agency is “unconditional” for purposes of risk-weighting assets at zero percent under FCA regulations.

Significant Asset Growth and Its Implications—FCA issued an **Informational Memorandum** to alert the System about the potential implications of significant asset growth and how it may contribute to increased risk in a less favorable lending environment. The memorandum also reminded System institution boards of directors to review and ensure the adequacy of internal controls in a rapid-growth environment.

Instructions for Filing Financial Reports—FCA issued an **Informational Memorandum** that provided instructions for submitting financial reports and related schedules to the Agency as outlined in Part 620 of the regulations. Also, the memorandum encourages institutions to submit their reports electronically.

Rescission of Bookletters on Disclosure of Directors’ and Senior Officers’ Compensation—FCA issued an **Informational Memorandum** that rescinded five bookletters covering this topic because they were no longer relevant.

Moderately Priced Housing—FCA issued an **Informational Memorandum** that clarified the definition of “moderately priced” housing for rural home financing and addressed other issues for determining these values.

Revised Regulatory Treatment for Certain Electric Cooperative Assets—FCA revised a **Bookletter** (BL-053) to permit a lower regulatory capital risk weight for certain loans and leases to generation and transmission and electric distribution cooperatives.

Young, Beginning, and Small Farmers and Ranchers—FCA revised a **Bookletter** (BL-040) to provide updated guidance on interpreting the phrase “sound and constructive credit” to ensure that all System institutions are fully engaged and use all available authorities to assist YBS farmers, ranchers, and producers and harvesters of aquatic products.

Guidance on Farm Credit Bank and Association Nominating Committees—FCA revised a **Bookletter** (BL-043) to provide guidance to Farm Credit banks and associations on organizing their nominating committees. It also provided guidance on a nominating committee’s authority to select a slate of candidates for all open stockholder-elected director positions and the permissible activities of directors, officers, employees, and agents in working with nominating committees.

FCS Corporate Activity and Other Prior Approvals

In accordance with the Farm Credit Act and FCA regulations, FCA issues prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for FCA to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or termination of System status. Noncorporate applications include requests for prior approval for preferred stock and subordinated debt offerings, funding, mission-related investments, and any new financially related services.

Corporate Activities in FY 2007 and Early FY 2008

1. On October 1, 2006, a Federal land credit association (FLCA) affiliated with the Farm Credit Bank of Texas converted its charter to an agricultural credit association (ACA). To effect this change, the Agency chartered a production credit association (PCA) with which the FLCA could consolidate to establish the ACA. The ACA now operates with PCA and FLCA subsidiaries. The ACA parent-subsidary structure allows an association to provide a broader range of specialized services to its member-borrowers. This structure also preserves the tax-exempt status of profits made by FLCA subsidiaries of an ACA while allowing one-stop lending for both long- and short-term loans.
2. On October 1, 2006, two ACAs affiliated with the Farm Credit Bank of Texas merged into a single ACA with subsidiaries.
3. On December 1, 2006, one ACA affiliated with AgFirst, FCB, changed its headquarters location.
4. On January 11, 2007, FCA canceled the charter of the Farm Credit System Financial Assistance Corporation, effective retroactively to December 31, 2006. The Agency took this action after determining that the corporation had discharged all its statutory responsibilities under sections 6.9 and 6.26 of the Farm Credit Act.
5. On January 18, 2007, FCA amended the Articles of Incorporation of the Farm Credit Leasing Services Corporation, which took effect February 16, 2007. The amendment permitted an optional third seat on the Leasing Corporation's board of directors at the discretion of the board chairman. The Leasing Corporation is a service corporation chartered under section 4.25 of the Farm Credit Act of 1971, as amended, and is a wholly owned subsidiary of CoBank, ACB.
6. On February 1, 2007, one ACA affiliated with the Farm Credit Bank of Texas changed its name and the names of its subsidiaries and moved its headquarters location.
7. On June 18, 2007, FCA issued an amended and restated charter to CoBank, ACB, effective retroactively to January 1, 2007. The charter reconciles CoBank's statutory powers and obligations under Titles I and III of the Farm Credit Act of 1971, as amended, but grants no new authorities to CoBank.
8. On December 1, 2007, one ACA affiliated with AgFirst, FCB, changed its name and those of its subsidiaries.

9. On January 1, 2008, two ACAs affiliated with AgriBank, FCB, consolidated to form a new ACA with subsidiaries.
10. During FY 2007, FCA canceled the charters of three associations (including those of two subsidiaries) because of a merger.
11. Thus far in FY 2008, FCA has canceled the charters of four associations—two ACAs and two subsidiaries—because of a consolidation involving two ACAs.

Projected Mergers and FCS Institution Size

As of January 1, 2008, the System had 94 direct-lender associations and five banks. Seven service corporations and special-purpose entities brought the total number of FCS institutions to 106 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined slightly more than 45 percent since 2000, and the number of FCS banks has decreased almost 30 percent. Generally, these mergers have resulted in larger, more cost-efficient, and better capitalized institutions with a broader, more diversified asset base, both by geography and by commodity.

Although merger activity has slowed in recent years, the Agency estimates that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. The average association already exceeds \$1 billion in total assets. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

Security Issuances During FY 2007

1. One ACA affiliated with U.S. AgBank, FCB, increased the ceiling on the amount of preferred stock it could issue to its borrowers from \$100 million to \$200 million.
2. U.S. AgBank, FCB, and AgFirst, FCB, issued \$225 million and \$275 million of noncumulative perpetual preferred stock, respectively, to third-party investors.
3. CoBank, ACB, issued \$500 million of subordinated debt, which marked the first time that an FCS institution had issued this type of security.

Funding Activity

The FCS raises funds for loans and investments by the sale of debt securities through the Federal Farm Credit Banks Funding Corporation,³ the fiscal agent for the Farm Credit banks. Through this conduit, funds flow from worldwide capital-market investors to agriculture and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds,

³ Headquartered in the greater New York City area, the Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. The Funding Corporation is the financial spokesperson for the Farm Credit System and is responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all funding requests.

For the 12 months ended September 30, 2007, the FCS issued \$449 billion in debt, up substantially from the \$342 billion and \$310 billion issued in the corresponding periods of 2006 and 2005, respectively. FCS debt issuance increased in the most recent period because Farm Credit banks relied more heavily on short-term discount notes to fund historically high-priced commodity inventories and sizeable increases in their loan and investment portfolios.

Investments in Rural America

In January 2005, FCA issued guidance that gave System institutions an opportunity to participate in pilot programs supporting investments in rural America (see FCA Informational Memorandum dated January 11, 2005, on Investments in Rural America—Pilot Investment Programs). The mission of the FCS is to provide for an adequate and flexible flow of funds, under specified conditions, to agriculture and rural communities across the country. The pilot programs are intended to further enable the System to meet its mission.

In addition, the pilot investment programs are intended to provide FCS institutions greater flexibility to partner with Government agencies and other agricultural and rural lenders in fulfilling FCS mission objectives. Through these pilot investment programs, FCA is looking to gain a better understanding of the diverse financing needs of agriculture and rural communities and how FCS institution investments can help increase the availability and efficiency of funds to these markets, as well as to address any funding gaps.

Since initiating this pilot investment program, FCA has approved 36 applications and requests from FCS banks, associations, and districts to initiate programs and make specific investments in rural America. FCA has placed a number of controls on these pilot investment programs to ensure their safety and soundness and mission focus. These controls include criteria to ensure that only well-managed and strongly capitalized institutions may conduct pilot programs. The controls also specify the investment purposes the programs should fulfill, impose program and risk limits, require prudent investment management standards, and limit the pilot period to no more than three years.

Examples of investments made under these pilot programs include investments in rural housing mortgage securities, essential rural community facilities, and rural infrastructure. Additional examples include investments in regional investor networks that provide funding and operational support for rural entrepreneurs, investments by rural lenders that improve liquidity in rural financial markets, and investments that provide essential start-up capital for young and beginning farmers in the form of subordinated debt.

In FY 2008 and FY 2009, the number of applications is expected to decline because most institutions are now operating under programs authorized by FCA, although specific requests for individual investments will likely continue. Also, FCA will continue to expend resources on examining and supervising these investments, enhancing reporting processes, and evaluating the types of investments being made in light of their benefits to agriculture and rural America.



PART III

Farm Credit System

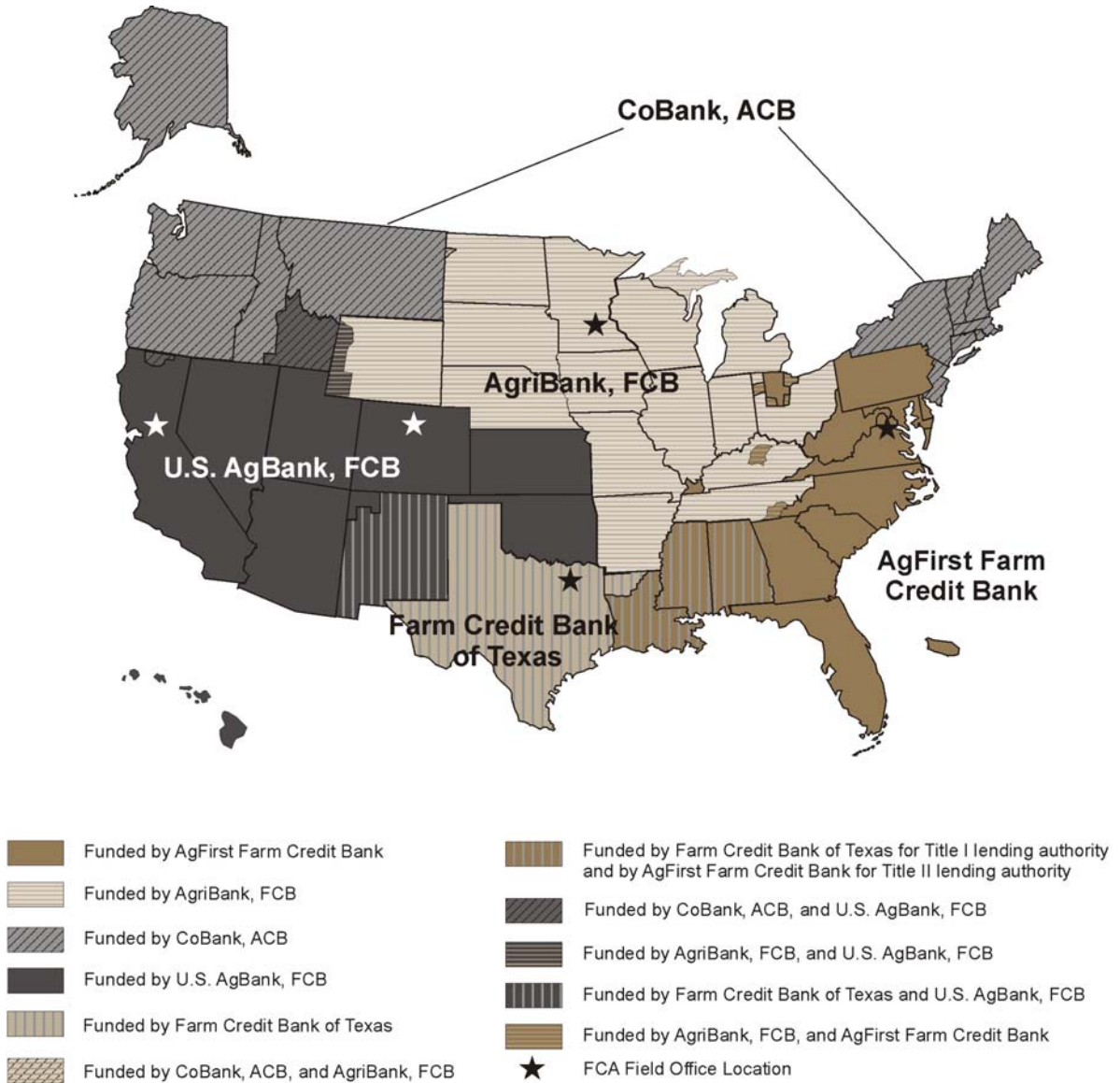
PROFILE OF THE FARM CREDIT SYSTEM

The Farm Credit System (FCS, or System) is the largest agricultural lender in the United States, with a network of borrower-owned cooperative financial institutions and related service organizations. It was created by Congress in 1916 to provide American agriculture with a dependable source of credit and is the oldest of the five financial Government-sponsored enterprises (GSEs). As of January 1, 2008, the System had five banks providing loan funds to 85 Agricultural Credit Association (ACA) parent organizations and nine Federal Land Credit Associations (FLCAs). See the map in figure 3 to see each bank's chartered territory.

Although legally separate, the ACA and its Production Credit Association (PCA) and FLCA subsidiaries operate an integrated lending business, with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, the PCA, and the FLCA are jointly and severally liable for the full amount of the indebtedness to the funding bank under the General Financing Agreement. In addition, the parent company and its subsidiaries agree to guarantee each other's debts and obligations, pledge their respective assets as security for the guarantee, and share each other's capital. The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are exempt from Federal income taxes.

System institutions provide credit and financially related services to farmers and ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities; rural housing; certain farm-related business, agricultural, and aquatic cooperatives; rural utilities; and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling securities in the national and international money markets, subject to FCA's approval. **These securities are not guaranteed by the U.S. Government.**

FIGURE 3. Map Showing Chartered Territory of Each FCS Bank and the Locations of FCA Field Offices



NOTE: CoBank funds five associations in the indicated areas and serves cooperatives nationwide; U.S. AgBank, FCB, funds 29 associations; Farm Credit Bank of Texas funds 20 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 23 associations. The Farm Credit System contains a total of 99 banks and associations.

Additional System Entities and Service Corporations

In addition to the System's banks and associations, the Agency is responsible for regulating and examining the Federal Agricultural Mortgage Corporation (Farmer Mac), the Federal Farm Credit Banks Funding Corporation, and five service corporations organized under section 4.25 of the Farm Credit Act:⁴ AgVantis, Inc.; Farm Credit Finance Corporation of Puerto Rico; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; and the FCS Building Association (FCSBA).

Federal Agricultural Mortgage Corporation—Farmer Mac⁵ is a stockholder-owned, federally chartered instrumentality of the United States that was created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. Farmer Mac conducts its business primarily through two core programs: Farmer Mac I and Farmer Mac II. Under the former, Farmer Mac purchases, or commits to purchase, qualified loans or obligations backed by qualified loans that are not guaranteed by any instrumentality or agency of the United States. Under the latter, Farmer Mac purchases the guaranteed portions of farm ownership and farm operating loans, rural business and community development loans, and certain other loans guaranteed by USDA.

Federal Farm Credit Banks Funding Corporation—The Funding Corporation is owned by System banks and markets the debt securities that the banks sell to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these securities in the Nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funding to process loans to farmers, ranchers, and agricultural cooperatives.

AgVantis, Inc.—AgVantis, Inc., provides technology-related and other support services to U.S. AgBank, FCB, and its affiliated associations. It was chartered by FCA in 2001 and is owned by the bank and 19 of its affiliated associations.

Farm Credit Finance Corporation of Puerto Rico—The Farm Credit Finance Corporation of Puerto Rico uses tax incentives offered to investors to provide low-interest funding (other than that from the Funding Corporation) to Puerto Rico Farm Credit, ACA. Because of changes in the tax treatment of the corporation, AgFirst, FCB, the corporation's sole owner, suspended its operations as of December 31, 2005. However, the corporation's charter remains outstanding.

⁴ Section 4.25 of the Farm Credit Act provides that one or more FCS banks or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

⁵ Farmer Mac is established in law as a part of the FCS. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac's debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Nonvoting stock may be owned by any investor. Farmer Mac is regulated by FCA through the Office of Secondary Market Oversight. The OSMO Director reports directly to the FCA Board on matters of policy.

Farm Credit Leasing Services Corporation—The Leasing Corporation, owned by CoBank, ACB, provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.

Farm Credit Financial Partners, Inc.—Farm Credit Financial Partners, Inc., provides support services to CoBank, ACB; CoBank's five affiliated associations; the Leasing Corporation; five associations affiliated with U.S. AgBank, FCB; one association affiliated with AgriBank, FCB; and two FCS-related entities.

FCS Building Association—FCSBA, which acquires, manages, and maintains facilities to house FCA's headquarters and field office staff, was formed in 1981. It is owned by System banks but is subject to the oversight and direction of the FCA Board.

FCS Mission Fulfillment

The System fulfills its overall mission by using its authority to lend to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, System lending authorities have evolved to include the following:

- Long-term agricultural real estate loans, including rural home loans
- Short- and intermediate-term agricultural loans
- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Loans that finance agricultural exports and imports
- Loans for rural utilities

In addition to its lending programs, the System is experimenting with several mission-related investment programs (referred to as Investments in Rural America) to strengthen its ability to provide for an adequate and flexible flow of funds to agriculture and rural communities across the country. These pilot programs often involve partnerships or alliances with other agricultural lenders. Regardless of their scope, they all operate under conditions specified by FCA. (See page 42 for a description of the Investments in Rural America program.)

Financial Condition and Performance

The overall condition and performance of the FCS remained safe and sound during the first nine months of 2007. Net income for this period grew by 13.4 percent from the same period a year earlier.

The System's loan portfolio continued to grow as lending conditions remained favorable. For the year ended September 30, 2007, gross loans grew by 16.6 percent, compared with 12.3 percent during the previous 12-month period. The CoBank and Texas districts experienced the strongest growth as gross loans increased by 25.8 percent and 21.4 percent, respectively.

Despite the extensive growth, asset quality remained high and actually improved as 2007 progressed. All banks and associations continued to maintain capital ratios well in excess of minimum regulatory requirements.

Earnings

The FCS earned \$2.0 billion in the first nine months of 2007, a 13.4 percent increase from the \$1.8 billion earned in the same period in 2006. This gain in net income stemmed from continuing high growth in the volume of loans and investments, which increased net interest income by \$368 million (13.9 percent). See table 20.

**TABLE 20: Net Income
(Dollars in Millions)**

	First 9 Months of 2006	First 9 Months of 2007	Dollar Change	Percent Change
Net interest income	\$2,640	\$3,008	\$368 ^a	13.9
- Provision for losses	(12)	64	76	633.3
= Net interest income after loss provision	2,652	2,944	292	11.0
+ Noninterest income	292	326	34	11.6
- Noninterest expense	1,086	1,149	63	5.8
= Pretax income	1,858	2,121	263	14.2
- Provision for income tax	76	100	24	31.6
= Net income	1,782	2,021	239	13.4
^a Of the increase in net income, \$357 million was the result of increased volume, and \$11 million was the result of increased rates. Source: FCS Quarterly Information Statements.				

The \$368 million increase in net interest income much more than offset the \$63 million increase (5.8 percent) in non-interest expenses in 2007. Additionally, the higher amount of invested assets more than offset a limited ongoing compression in interest rate spreads. The net interest spread, for example, fell three basis points from 1.76 percent to 1.73 percent. This modest change occurred as the yield on earning assets rose by an annualized rate of 32 basis points, while the yield on interest-bearing liabilities increased by an annualized rate of 35 basis points. Net interest margin—a second operations measurement—decreased by 4 basis points during this period. See table 21.

TABLE 21: Interest Margin Compression

Annualized Percentages	First 9 Months of 2006	First 9 Months of 2007	Change (bps)
Total earning assets	6.57	6.89	32
Loans	7.02	7.31	29
Investments and other assets	4.97	5.37	40
Total interest-bearing liabilities	4.81	5.16	35
Net interest spread	1.76	1.73	-3
Effect of noninterest-bearing items	0.73	0.72	-1
Net interest margin	2.49	2.45	-4
Source: FCS Quarterly Information Statements.			

The System’s net return measures continued to run strong during the first nine months of 2007. However, the return on average assets and average capital varied by district, increasing in some districts while declining in others. See table 22 below.

TABLE 22: Profitability Across System Districts

		AgFirst	AgriBank	Texas	U.S. AgBank	CoBank
Percent return on average assets	2006	1.81	1.29	1.69	1.68	1.35
	2007	1.55	1.39	1.42	1.81	1.26
Percent return on average capital	2006	13.34	7.87	11.82	9.39	11.87
	2007	12.01	8.97	10.76	10.14	12.58
Note: The data are for the first nine months of each year.						
Source: FCS Quarterly Information Statements.						

Asset Growth

The System experienced substantial loan and asset growth during the year ended September 30, 2007. Generally high agricultural commodity prices continued to stimulate loan demand, especially for seasonal agribusiness loans, from the System’s customers. Higher feed costs and increased land values also added to loan demand during this period, although higher feed costs had a negative effect on the profitability of livestock operations. FCS assets grew to \$179.5 billion as of September 30, 2007, up \$24.8 billion (16.0 percent)

from September 30, 2006. Both loans (up \$19.2 billion, or 16.6 percent) and investments (up \$4.7 billion, or 14.6 percent) contributed to the sharp increase.

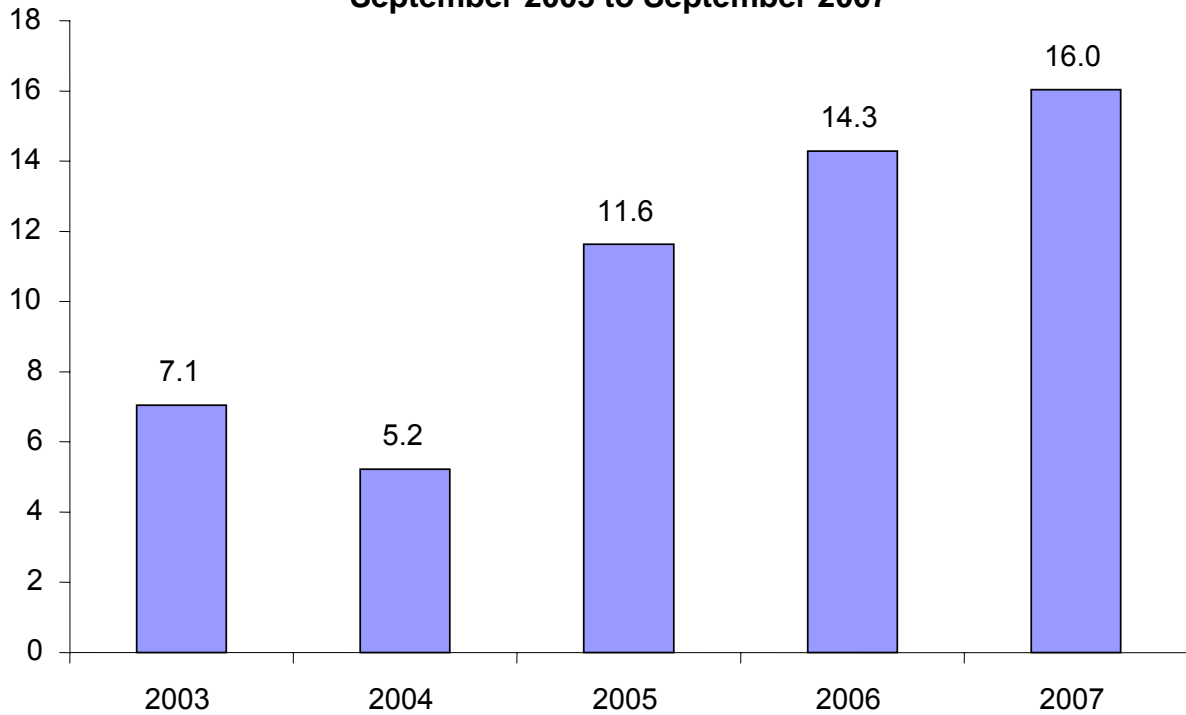
In percentage terms, CoBank and its district associations had the largest loan growth for the year ended September 30, 2007, up 25.8 percent, followed by the Texas district with 21.4 percent. CoBank also had the largest dollar growth at \$7.7 billion.

**TABLE 23: Gross Loan Growth by District and Systemwide
(Dollars in Millions)**

	September 30, 2006		September 30, 2007		Change in Dollars	Percent Change
	Gross Loans	Percent Total	Gross Loans	Percent Total		
AgFirst	\$17,860	15.4	\$20,294	15.0	\$ 2,434	13.6
AgriBank	40,508	35.0	46,583	34.5	6,075	15.0
Texas	11,901	10.3	14,445	10.7	2,544	21.4
U.S. AgBank	17,066	14.7	18,742	13.9	1,676	9.8
CoBank	29,971	25.9	37,693	27.9	7,722	25.8
Insurance Fund, FAC, and combining entries	(1,435)	(1.2)	(2,687)	(2.0)	(1,252)	87.2
Total for System	\$115,871	100.0	\$135,070	100.0	\$19,199	16.6
Source: FCS Quarterly Information Statements.						

As noted in the following figure, the System's total assets grew 16.0 percent during the 12-month period ended September 30, 2007, continuing an accelerating trend that began in 2004.

FIGURE 4. Percent Change in System Assets, September 2003 to September 2007



Source: FCS Quarterly Information Statements.

Assets—Investments

The System’s investment activity also grew rapidly during FY 2007. For example, the portfolio of mortgage-backed securities available for sale grew by 21.0 percent during this period; however, mortgage-backed securities being held to maturity grew even faster, by 32.3 percent. Yields did not change appreciably in any segment of the investment portfolio except for U.S. Agency securities, which moved from 3.7 percent to 5.2 percent. The overall yield on securities available for sale increased from 5.1 percent to 5.3 percent, while the yield on securities held to maturity remained about the same at 5.9 percent.

**TABLE 24: FCS Investments
(Dollars in Millions)**

		September 30, 2006		September 30, 2007		Change		
		Amount	WAY (%)	Amount	WAY (%)	Amount		WAY bp
						Dollars	Percent	
Available for sale (fair value)	Money market instruments	\$3,318	5.3	\$2,400	5.5	\$(918)	(27.7)	19
	U.S. agency securities	283	3.7	1,363	5.2	1,080	381.6	156
	Mortgage- backed securities	20,880	5.0	25,261	5.2	4,381	21.0	22
	Other asset- backed securities	3,371	5.4	2,523	5.4	(848)	(25.2)	2
	Mission related	N/A		683	5.5	683		
	Total	\$27,852	5.1	\$32,230	5.3	\$4,378	15.7	19
Held to maturity (amortized cost)	Money market instruments	56	7.7	N/A	N/A			
	Mortgage- backed securities	1,795	5.7	2,374	5.8	579	32.3	9
	Other asset- backed securities	125	8.5	301	6.8	176	140.8	(166)
	Total	\$1,976	5.9	\$2,675	5.9	\$699	35.4	(2)
WAY = weighted average yield; bp = basis points								
Source: FCS Quarterly Information Statement.								

Asset Quality

The quality of FCS assets continued to improve from the already high levels of 2006. Nonperforming assets, which represented just 2.45 percent of total capital as of September 30, 2006, fell further to 2.25 percent by September 30, 2007. Nonperforming loans declined by \$3 million during the previous 12 months to \$577 million as of September 30, 2007.

Although net charge-offs were higher in the first nine months of 2007 than they were for the same period a year earlier, they remained negligible. In the first nine months of 2007, the System had net charge-offs of \$26 million compared with net charge-offs of \$3 million for the comparable period in 2006. This increase in charge-offs was primarily the result of the charge-off of one long-term real estate loan, which was partially offset by recoveries from several other loans.

Because of the decline in nonperforming loans mentioned previously, the allowance for loan losses provided increasing coverage of nonperforming and nonaccrual loans, as table 25 shows.

TABLE 25: FCS Asset Quality

Asset Quality	September 30, 2006	September 30, 2007
Nonaccrual loans as percentage of total loans	0.42	0.35
Nonperforming assets as percentage of capital	2.45	2.25
ALL as percentage of total loans	0.63	0.57
ALL as percentage of nonperforming loans	127	134
ALL as percentage of nonaccrual loans	153	165
ALL = allowance for loan losses		
Source: FCS Quarterly Information Statements.		

Liabilities, Funding, and Liquidity

The System's funding composition remained relatively constant for the year ended September 30, 2007, as short-term debt securities made up 37.8 percent of total Systemwide debt securities as of September 30, 2007, versus 36.4 percent a year earlier. Debt securities due within one year increased by 20.9 percent while those due after one year increased by 17.2 percent. See table 26 below.

**TABLE 26: Systemwide Debt
(Dollars in Millions)**

	September 30, 2006	September 30, 2007	Change	
			Dollars	Percent
Systemwide discount notes due within 1 year	\$ 14,330	\$ 17,954	\$ 3,624	25.3
Systemwide bonds, medium-term notes, and master notes due within 1 year	31,595	37,559	5,964	18.9
Total short-term liabilities	\$ 45,925	\$ 55,513	\$ 9,588	20.9
Systemwide bonds, medium-term notes, and master notes due after 1 year	80,177	91,292	11,115	13.9
Other liabilities	4,389	6,125	1,736	39.6
Total liabilities	\$130,491	\$152,930	\$22,439	17.2
Source: FCS Quarterly Information Statements.				

Nevertheless, the System's liquidity position remained strong. Though it declined somewhat from 165 days as of September 30, 2006, to 143 days as of September 30, 2007, liquidity remained significantly above the regulatory minimum.⁶

The duration gap, which derives from the estimated durations of assets and liabilities, is a primary measure of asset-liability risk exposure. A positive duration gap means the System is exposed to rising interest rates because the duration of assets exceeds the duration of liabilities. The opposite would be true for a negative duration gap. A duration gap within the range of plus or minus three months generally indicates a small risk exposure to changes in interest rates.⁷

⁶ The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide debt securities and other bonds for which the bank is primarily liable with the total amount of cash, investments, and other liquid assets maintained by that bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

⁷ Duration is the weighted average maturity of cash flows. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates change. Here, "duration gap" is the difference between the duration of assets and the duration of liabilities, measured in months. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large. The Funding Corporation considers a gap of plus or minus three months to be small.

The duration gap for the FCS was a positive 1.5 months on September 30, 2007, compared with a positive 1.3 months on September 30, 2006, reflecting a limited amount of interest rate risk in the System's lending operations.

Capital

Although total capital grew almost 10 percent during FY 2007 to reach \$26.6 billion, several of the System's key capital ratios declined. Most of the \$2.4 billion increase in capital came from net income, but the issuance of preferred stock by a few institutions also added to the total. One institution also issued subordinated debt to help strengthen a couple of regulatory capital ratios. See table 27 for changes in the capital components.

Surplus still accounts for the overwhelming majority of capital at around 80.4 percent as of September 30, 2007, compared with 82.0 percent as of September 30, 2006. However, the System's capital-to-assets ratio fell from 15.7 percent to 14.8 percent over this 12-month period, reflecting the strong growth in System assets.

TABLE 27: FCS Capital Composition
(Dollars in Millions)

	September 30, 2006	September 30, 2007	Change	
			Dollars	Percent
Preferred stock	\$1,022	\$1,551	\$529	51.8
Capital stock and participation certificates	1,309	1,338	29	2.2
Restricted capital (Insurance Fund)	2,243	2,519	276	12.3
Accumulated other comprehensive loss	(206)	(192)	14	-6.8
Surplus	19,845	21,371	1,526	7.7
Total capital	\$24,213	\$26,587	\$2,374	9.8
Source: FCS Quarterly Information Statements.				

Table 28 shows that the banks are all individually and collectively capitalized well in excess of regulatory requirements. However, the banks and associations continue to actively evaluate various options for raising additional capital to strengthen their balance sheets and support new lending opportunities.

TABLE 28: Regulatory Capital and Ratios of FCS Banks

		AgFirst	AgriBank	Texas	U.S. AgBank	CoBank
Permanent capital ratio	9/30/2006	20.1	20.3	14.2	20.3	12.6
	9/30/2007	21.2	19.9	13.4	20.9	13.3
	Change	1.1	-0.4	-0.8	0.6	0.7
Total surplus ratio	9/30/2006	20.1	20.2	12.0	17.0	12.6
	9/30/2007	21.1	19.8	11.1	17.6	13.3
	Change	1.0	-0.4	-0.9	0.6	0.7
Core surplus ratio	9/30/2006	12.0	12.7	7.0	11.9	5.6
	9/30/2007	10.2	11.8	6.6	10.9	5.4
	Change	-1.8	-0.9	-0.4	-1.0	-0.2
Net collateral ratio	9/30/2006	105.7	104.8	105.5	105.0	107.8
	9/30/2007	106.6	104.7	105.3	105.2	107.5
	Change	0.9	-0.1	-0.2	0.2	-0.3
Source: FCA Consolidated Reporting System.						

Young, Beginning, and Small Farmers and Ranchers

Congress has mandated that the Farm Credit System serve the credit needs of young, beginning, and small (YBS) farmers and ranchers. To ensure that the System fulfills this responsibility, the FCA Board adopted a final rule in 2004 that

1. amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
2. allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages the establishment of advisory committees comprising YBS farmers;
3. requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over YBS programs; and
4. requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Since adoption of the rule, FCA examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, the Agency continues to review and consider regulatory relief options to support YBS programs in the FCS. For example, in August 2007, FCA issued a revised booklet to the System that provided guidance on interpreting the phrase "sound and constructive

credit," which is used in § 4.19 of the Farm Credit Act of 1971, as well as in FCA regulation 614.4165. This guidance will help ensure that all System institutions make full use of their authorities to assist YBS farmers to begin, grow, or remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2006. FCA is currently collecting information for 2007 and estimates it will be available by March 2008. Summary information on the System’s YBS program results is also available on FCA’s Web site at www.fca.gov.

Young—At the end of 2006, the System had 140,209 loans outstanding to young farmers, totaling \$15.4 billion. A “young” farmer is defined as one who is 35 years old or younger when the loan is made. During 2006, 46,459 new loans, totaling \$5.5 billion, were made to young borrowers. These new loans represented 17.0 percent of all new loans the System made for the year and 10.5 percent of new loan dollar volume.

Beginning—The System had 189,223 loans outstanding to beginning farmers, totaling \$25.4 billion, at year-end 2006. “Beginning” farmers are those with ten or fewer years of farming experience. During 2006, 57,828 new loans, totaling \$9.3 billion, were made to beginning borrowers. New loans to beginning farmers represented 21.2 percent of all new loans and 17.8 percent of new loan dollar volume.

Small—At year-end 2006, FCS institutions had 465,951 loans outstanding to small farmers, totaling \$36.3 billion. “Small” farmers are defined as those with annual gross sales of less than \$250,000. During 2006, 148,025 new loans, totaling \$11.6 billion, were made to small borrowers. New loans to small farmers represented 54.3 percent of all new loans and 22.2 percent of new loan volume.

Note: Loans to YBS producers include real estate loans and short- and intermediate-term loans.

Tables 29 and 30 provide the YBS results for calendar year 2006. It is important to note that the YBS information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not a meaningful measure of the System’s YBS lending activity.

TABLE 29. YBS Loans Outstanding as of End of Calendar Year 2006

Type of Farmer	Percentage of Total Loans	Percentage of Total Volume	Average Loan Size
Young	18.0	11.7	\$109,931
Beginning	24.3	19.4	134,350
Small	59.8	27.7	77,988

Note: YBS data for each category are reported separately and should not be added. At year-end 2006, the outstanding loans to young, beginning, and small farmers totaled \$15.4 billion, \$25.4 billion, and \$36.3 billion, respectively.

TABLE 30. YBS New Loans in 2006

Type of Farmer	Percentage of Total Loans	Percentage of Total Volume	Average Loan Size
Young	17.0	10.5	\$117,729
Beginning	21.2	17.8	160,182
Small	54.3	22.2	78,198

Note: YBS data for each category are reported separately and should not be added. During 2006, the amount of new loans made by the FCS to young, beginning, and small farmers totaled \$5.5 billion, \$9.3 billion, and \$11.6 billion, respectively.

To help YBS farmers qualify for credit, most FCS associations offered differentiated loan underwriting standards or made exceptions to those standards for YBS borrowers. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than half of all FCS associations have lower interest rate programs for YBS borrowers, and nearly as many offer lower loan fees for them.

Most FCS associations use Government guaranteed loans, primarily those of the Farm Service Agency. Use of these guarantees reduces credit risks to the lender while enabling associations to make loans to borrowers who would not otherwise meet the underwriting standards. Finally, many associations offer a wide range of training programs or other services for YBS farmers; examples include programs to build leadership and financial management skills and special conferences for young farmers.

Market Share of Farm Debt

On August 30, 2007, USDA posted on its Web site revised estimates of total farm business debt going back to 2000. On the basis of the new estimates, total farm business debt was \$207.3 billion at the end of 2006, up 7.3 percent from the end of calendar year 2005. The System’s market share was 34.6 percent at the end of calendar year 2006 while commercial banks had a 44.5 percent market share. Both lender groups enjoyed market share increases in 2006 as they increased their outstanding loan portfolios about \$7.5 billion and \$6.7 billion, respectively.

In recent years, the FCS has been increasing its market penetration, steadily moving from a 26.0 percent market share at year-end 1999 to the current figure of 34.6 percent. However, the market share estimates for commercial banks show that their share has remained fairly flat since 2000, when it spiked to 45.5 percent following the downward revision in the debt estimates for “individuals and others.” Since then, the market share of commercial banks has hovered around 44 percent, edging up to 44.5 percent at year-end 2006.

By market segment, commercial banks had slightly better volume gains in the farm real estate market in 2006 than the System did, while the System fared better in the non-real-estate market. However, except for the unusual period of the 1980s and various market adjustments in the 1990s, the FCS has typically been the dominant lender in the farm real estate market. Commercial banks have always dominated non-real-estate lending.

Although the System's share of debt secured by farm real estate increased to 40.2 percent at year-end 2006, its share has actually held fairly steady for the last five years, inching up from 39.2 percent at the end of 2002. But the System is doing better at penetrating the non-real-estate farm debt market, as its share was 28.4 percent at year-end 2006 compared with 25.0 percent at year-end 2002. During the late 1990s, its share in this segment tended to run less than 20 percent.

Commercial banks, after several years of steady gains, actually edged ahead of the System in the farm real estate debt market in 2000, acquiring a 35.1 percent share. However, the System quickly regained the advantage in 2001 and has held the top position since that time. Commercial banks continued to dominate the debt market secured by non-real estate with a 52.6 percent share at the end of calendar year 2006, but this figure was down from 56.6 percent in 2000. The fact that commercial banks have held at least a 50 percent market share in this segment since 1991 shows their dominance.

USDA's new forecast for total farm debt at year-end 2007 was \$214.0 billion, a 3 percent increase over 2006. By market segment, real estate debt increased by 2.8 percent and non-real-estate debt by 3.7 percent. Information on the market shares of individual lender groups will not be available until February 2008.



PART IV

Performance Budget, FY 2009

PERFORMANCE BUDGET OVERVIEW

FCA's FY 2009 Performance Budget reflects its commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the Farm Credit System (FCS). The total Performance Budget (table 31) is \$49.6 million and reflects a 4.98 percent increase from FY 2008.

TABLE 31. FCA Performance Budget, FYs 2007–2009

	FY 2007 Actual^a	FY 2008 Revised	FY 2009 Proposed
Policy and regulation	\$10,621,978	\$14,539,074	\$14,400,437
Safety and soundness	27,239,403	28,490,702	32,831,485
Reimbursable activities	3,738,276	4,254,628	2,408,225
Total	\$41,599,657	\$47,284,404	\$49,640,147
^a Rather than the approved budget amounts, actual expenditures for FY 2007 are provided for comparison purposes.			

Policy and Regulation

The Agency's Performance Budget includes \$14.4 million for the policy and regulation program, a 1.0 percent decrease from FY 2008. Most of the funds requested for policy and regulation in FY 2009 will support regulatory projects that were published in the Unified Agenda in the fall of 2007. Generally, FCA opens about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including corporate applications, System funding requests, mission-related investment programs, and other prior approvals.

Safety and Soundness

The Performance Budget includes \$32.8 million for the safety and soundness program, a 15.2 percent increase over FY 2008. The increase results from staff increases and a reallocation of examination resources from reimbursable activities to examination activities to meet System needs.

By regulation, FCA must examine each FCS institution at least once every 18 months and issue examination reports evaluating the overall condition and performance of these institutions. Other key activities involve discussions with boards of directors and management about findings from risk assessments, internal controls, and oversight plans, as well as the Financial Institution Rating System ratings assigned to individual institutions on a quarterly basis. In addition to the examinations in FY 2009, budgeted monies will support development of examination guidance and systemic risk oversight of the System, including the Federal Agricultural Mortgage Corporation (Farmer Mac). The remaining funds will be used to conduct policy studies and market research, prepare various publications and presentations, and manage the Agency's Consolidated Reporting System.

Reimbursable Activities

The Performance Budget includes \$2.4 million for reimbursable activities, most of which are services FCA provides on a contract basis to the U.S. Department of Agriculture (USDA). The reimbursable activities are summarized below and include indirect costs.

USDA—\$1,838,000 for work completed under contract agreement with USDA. The work in FY 2009 will involve conducting examinations of non-bank USDA Business and Industry (B&I) Guaranteed Loan lenders, performing operational reviews of USDA B&I State offices, and providing recommendations for B&I program enhancement.

Farm Credit System Insurance Corporation (FCSIC)—\$212,000 for administrative support services completed under contract with FCSIC. The administrative support services in FY 2009 include examination assistance, technology and information resources, human resources, communication and public affairs, and assistance in completing one premium audit.

National Consumer Cooperative Bank (NCB)—\$358,000 for conducting examination and oversight of NCB. The work in FY 2009 will involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS ratings' assessments.

Table 32 summarizes the costs associated with FCA's program activities, broken down by products and services.

TABLE 32. FY 2009 Budget (Proposed) and Full-Time Equivalents (FTEs) for Program Activities

	Products and Services	Budget Amount	FTEs
<i>Program activity: Policy and regulation</i>			
	Regulation and policy development	\$ 13,016,029	60.6
	Statutory and regulatory approvals	1,384,408	6.4
Total for policy and regulation		\$14,400,437	67.0
<i>Program activity: Safety and soundness</i>			
	Examination	31,099,031	177.3
	Economic, financial, and risk analysis	1,094,349	6.0
	FCS data management	638,105	3.5
Total for safety and soundness		\$32,831,485	186.8
<i>Program activity: Reimbursable activities</i>			
Total for reimbursable activities		\$2,408,225	12.1
TOTAL		\$49,640,147	265.9

DESIRED OUTCOMES FOR STRATEGIC GOALS

The strategic goals and desired outcomes, detailed in table 33, effectively measure FCA’s ability to carry out its mission. The information that follows provides (1) the means and strategies that will be used to accomplish the outcomes, (2) the measures for each outcome with targets/performance goals that reflect the Agency’s desired performance for FYs 2008–2009, and (3) a historical summary of the costs of accomplishing the desired outcomes.

TABLE 33. Desired Outcomes for Strategic Goals

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.	A flexible regulatory environment and a proactive examination program to monitor System institutions
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action
3. Implement the President’s Management Agenda.	Effective and efficient management of resources

Policy and Regulation—The Policy and Regulation program was established to track the product and service costs of achieving a flexible regulatory environment. The products and services produced by the Agency to support accomplishing this program activity are Regulation and Policy Development and other Statutory and Regulatory Approvals.

Safety and Soundness—The Safety and Soundness program was established to track the product and service costs incurred to effectively identify risks and to take timely corrective action. The products and services produced by the Agency to support accomplishing this program activity are Examination; Economic, Financial, and Risk Analysis; and FCS Data Management.

Since FCA does not have a program activity for goal 3, the costs associated with the desired outcome of effective and efficient management of resources are embedded in the outcomes for goals 1 and 2.

Flexible Regulatory Environment

Means and Strategies

For goal 1, FCA is using the following means and strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public mission.

1. Ensure that FCS lenders and Farmer Mac reach out to all potential customers.
2. Ensure eligible customers have access to credit and related services and are treated equitably.
3. Enable the FCS and Farmer Mac to serve evolving customer needs.

4. Emphasize regulatory activities related to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.
5. Emphasize Farmer Mac's obligation to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market.
6. Encourage the System and Farmer Mac to use guarantee programs and to work with Federal and State agencies that offer such programs to streamline processes.
7. Encourage all FCS institutions and Farmer Mac to continue to include a discussion in annual reports of how they are meeting their public mission.
8. Enable the agricultural Government-sponsored enterprises (GSEs) to restructure to better serve their customers and rural America.
9. Ensure that regulatory definitions reflect the changes in agriculture, rural areas, and the financial marketplace.
10. Identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.
11. Encourage partnerships between System and non-System lenders and Farmer Mac that facilitate the flow of funds to agriculture and rural areas.
12. Publish best practices or establish guidelines, when appropriate, on FCA-regulated institutions' efficient and effective use of partnerships and other relationships with non-FCA-regulated entities to facilitate the flow of funds to agriculture and rural areas.

Measuring the Achievements

Table 34 summarizes the results of FCA's efforts to achieve a flexible regulatory environment for the System and Farmer Mac. We achieved our goals in FY 2007.

**TABLE 34. Flexible Regulatory Environment
Performance Measures and Achievements**

Measure	FY 2007 (Actual)		FYs 2008– 2009
	Target	Result	Target
1. Percentage of FCS institutions ^a with satisfactory strategic business plans ^b as rated by FCA examiners for providing constructive credit and related services to all potential customers, including those operating under corrective action plans acceptable to FCA.	≥90%	100%	≥90%
2. Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO.	Yes	Yes	Yes
3. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including those operating under corrective action plans acceptable to FCA. FCA examiner reviews of consumer compliance and borrower rights are absent any material deficiencies or weaknesses in internal controls. ^c	≥90%	100%	≥90%
4. Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches ^d to the notice and comment rulemaking process.	≥40%	67%	≥40%
5. Percentage of direct-lender institutions that have satisfactory programs ^e as rated by FCA examiners to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products, or that have acceptable corrective action plans in place.	≥90%	100%	≥90%
6. The aggregate annual change in the level of System participation in Federal and State guarantee programs in relation to the aggregate annual change in total Federal and State guarantee programs to further accomplish the System’s public mission.	≥1.00	N/A	≥1.00

^a For purposes of performance measurement, the term “institution” does not include the FCS service corporations, the National Consumer Cooperative Bank (NCB), Farmer Mac (unless specifically noted), or institutions that FCA examines on behalf of SBA and USDA on a contract basis.

^b Effective strategic business plans are those that received a satisfactory rating from FCA examiners and comply with 12 CFR 618.8440.

^c FCA examiner reviews of consumer compliance and borrower rights did not disclose any material deficiencies or weaknesses.

^d Supplemental approaches include advance notice of proposed rulemaking, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town hall meetings, and other such approaches for gathering a broad range of public input.

^e An effective program is one that received a satisfactory rating from FCA examiners for the most recent review of an institution’s YBS program.

Note: The six measures indicate that FCA met its goal of achieving a flexible regulatory environment in FY 2007.

Costs

Table 35 provides an assessment of the Agency’s costs to achieve a flexible regulatory environment from FYs 2005 to 2007 and cost projections to achieve this goal for FYs 2008 and 2009.

TABLE 35. Costs to Achieve a Flexible Regulatory Environment

	FY 2005 Actual Expenses	FY 2006 Actual Expenses	FY 2007 Actual Budget	FY 2008 Actual Budget	FY 2009 Proposed Budget
Regulation and policy development	\$6,357,140	\$8,098,434	\$8,846,853	\$13,133,998	\$13,016,029
Statutory and regulatory approvals	575,432	854,668	1,775,125	1,405,076	1,384,408
Total	\$6,932,572	\$8,953,102	\$10,621,978	\$14,539,074	\$14,400,437
Note: The costs incurred by FCA to achieve a flexible regulatory environment are trending higher because of staff seniority and the Agency’s regulatory initiatives.					

Effective Risk Identification and Timely Corrective Action

Means and Strategies

For goal 2, FCA is using the following means and strategies to achieve effective risk identification and timely corrective action.

1. Maintain an effective examination and oversight program through maintenance of the Precommission Training Program and ongoing training of commissioned examiners.
2. Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the institutions comprising the two agricultural GSEs in addressing the changing needs of their customers in rural areas.
3. Evaluate whether each FCS institution and Farmer Mac have established and are maintaining proactive risk management practices commensurate with their respective risk-bearing capacities.
4. Evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio.
5. Evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institutions’ operations.
6. Maintain early warning systems that allow timely identification of emerging risks and related issues in FCS institutions.

7. Undertake research and analysis of emerging risks and related issues and incorporate the findings into examination and oversight programs.

Measuring the Achievements

Table 36 provides the results of FCA’s examinations and oversight efforts to effectively identify risk and take timely corrective action. Again, the Agency met its goals in FY 2007.

**TABLE 36. Effective Risk Identification and Timely Corrective Action—
Summary of Strategic Goal Measures and Achievements**

Measure	FY 2007 (Actual)		FYs 2008– 2009
	Target	Result	Target
1. Number of institutions that FCA placed in receivership due to financial failure during the previous 12 months.	0	0	0
2. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material aspects.	≥ 90%	99.5%	≥ 90%
3. Percentage of FCS institutions with composite FIRS ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the underlying problems as determined by FCA examiners. ^a	100%	100%	100%
4. Percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent.	≥ 90%	100%	≥ 90%
5. Percentage of institutions complying with all regulatory capital ratio requirements (permanent capital ratio, total capital ratio, core surplus ratio, net collateral, risk-based capital), including those operating under corrective action plans acceptable to FCA.	100%	100%	100%
6. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations.	100%	100%	100%
7. Percentage of FCA-regulated institutions that have satisfactory audit and review programs as determined by FCA examiners, including those with corrective action plans acceptable to FCA. ^b	100%	100%	100%
<p>^a Two FCS institutions are currently rated 3. FCA’s Office of Examination is appropriately supervising these institutions. No FCS institutions are currently rated 4 or 5; no corrective action plans are required.</p> <p>^b An effective audit and review program has a satisfactory rating from FCA examiners on the most recent internal control review.</p> <p>Note: The seven measures detailed indicate that FCA met its goal of achieving effective risk identification and timely corrective action in FY 2007.</p>			

Costs

Table 37 provides information on the Agency’s costs to identify risks in the FCS and to take timely corrective action from FYs 2005 to 2007 and provides cost projections to achieve this goal for FYs 2008 and 2009.

TABLE 37. Costs to Identify Risk and Take Timely Corrective Action

	FY 2005 Actual Expenses	FY 2006 Actual Expenses	FY 2007 Actual Budget	FY 2008 Budget (Revised)	FY 2009 Budget (Proposed)
Examination	\$27,461,635	\$25,880,120	\$25,099,071	\$26,720,597	\$31,099,031
Economic, financial, and risk analysis	1,328,107	1,269,522	1,517,126	1,113,671	1,094,349
FCS data management	892,708	658,929	623,206	656,434	638,105
Total	\$29,682,450	\$27,808,571	\$27,239,403	\$28,490,702	\$32,831,485
Note: FCA's costs to identify risk and take timely corrective action have held steady in recent years but are projected to increase in FYs 2008 and 2009 because of new hiring and training.					

Effective and Efficient Management of Resources

Means and Strategies

The following means and strategies will be used to implement the President’s Management Agenda through the effective and efficient management of resources.

1. Strategically manage human capital.
2. Upgrade the Agency’s financial management system.
3. Continue the expansion of electronic government.
4. Continue the evolution of budget and performance integration.
5. Give due consideration to competitive sourcing.

Measuring the Achievements

Table 38 provides the measures that FCA uses to ascertain if the Agency has managed its resources effectively and efficiently. The results for FY 2007 were all satisfactory.

**TABLE 38. Effective and Efficient Management of Resources—
Performance Measures and Achievements**

Measure	FY 2007 (Actual)		FYs 2008–2009
	Target	Result	Target
1. Structure of Agency is assessed at least once every five years to determine whether changes are needed to better meet mission goals.	Yes	Yes	Yes
2. Audit opinion on the Agency’s annual financial statements, as reported by the Agency’s external auditors.	Unqualified	Unqualified	Unqualified
3. Number of material internal control weaknesses reported by the Agency’s financial auditors.	0	0	0
4. Percentage of the Agency’s Web pages and electronic devices that are Section 508 accessibility compliant.	≥95%	96.8%	≥95%
5. FCA information and technology services available on a 24-hour basis to provide appropriate users access to Agency information, communications, and data collection services.	≥98.5%	98.8%	≥98.8%
Note: The results for the five measures indicate that FCA met its goal of managing resources effectively and efficiently in FY 2007.			

PERFORMANCE MEASUREMENT AND REPORTING

FCA's performance measurement system evaluates the Agency's progress in achieving the goals of FCA's Strategic Plan for FYs 2004 to 2009. The Agency provides a balanced view of its overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As demonstrated in this document, the Agency-level measures are linked to FCA's strategic goals.

The Chief Executive Officer, with assistance from designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The Chief Executive Officer monitors the Agency's progress and results relative to the Agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA Board. The year-end performance report is incorporated in the *FCA Performance and Accountability Report*, which is submitted to the President and Congress.